State of Arizona
Governor's Office

Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges

Level One Grant Application

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1 Project Abstract

In September 2011, the State of Arizona Governor's Office applied for and received Exchange planning grant funds. Since that time, Arizona has made significant progress in its planning for all of the required core areas with a concentration on background research, IT infrastructure and the certification of qualified health plans. These planning activities have focused on meeting the requirements for certification by CCIIO and ensuring the Arizona Health Insurance Exchange is operational by January 1, 2014.

Therefore, the State of Arizona is applying for Level One Establishment grant funding available through the Cooperative Agreement to Support Establishment of State-Operated Health Insurance Exchanges. Arizona will use its Level One Establishment grant funds to further plan, design and develop the Arizona Health Insurance Exchange. These funds will secure the IT infrastructure necessary for a user-friendly website that is fully integrated with Arizona's existing Medicaid web-based eligibility and enrollment system. Building upon Arizona's existing IT platform is the most efficient method to utilize Establishment grant funds and meet the timelines to be fully operational by open enrollment in October 2013.

Furthermore, Level One Establishment grant funds will assist in finalizing the plan management functions (including certification, recertification and decertification of health plans) to ensure that there are qualified plans available for individuals and small employers to select. This grant will enable Arizona to develop and implement plans for public education and outreach and determine how best to incorporate a Navigator program.

Today, 19% of Arizonans do not have health insurance. This has an impact on both access to health care and the cost of health insurance. The Exchange will provide an effective way for the uninsured, small employers and individuals to find the health insurance coverage that best meets their health needs and budget.

2 Project Narrative

Demonstration of Past Progress in Exchange Planning Core Areas

2.1 Background Research

Arizona retained the consulting firm, Burns and Associates, Inc. to perform background research to estimate the number of individuals who will be eligible for and participate in the Individual and Small Business Health Options Program (SHOP) Exchanges as well as the Medicaid and Children's Health Insurance Program (CHIP) through the Exchange. This research is being applied to ensure that the IT infrastructure has the capacity to handle the potential enrollment in the Arizona Health Insurance Exchange. It will also help demonstrate the potential size of the Exchange market to induce health insurers to participate as qualified health plans.

The report breaks down insurance coverage in Arizona by type of insurance, age, citizenship and income. Citizenship was included in the study because citizenship is a requirement for participation in both Medicaid and the Individual Exchange. The report found that more than 1.2 million residents or 19% of the population are uninsured in Arizona.

EXHIBIT 1. INSURANCE COVERAGE IN ARIZONA – TOTAL POPULATION 2008-10

COVERAGE TYPE	TOTAL		CITIZEN		NON-CITIZEN	
	Number (thousands)	Rate	Number (thousands)	Rate	Number (thousands)	Rate
Employer	3,344	52%	3,191	55%	153	25%
Non-Group	261	4%	245	4%	16	3%
Medicaid/CHIP	1,011	16%	920	16%	91	15%
Medicare	501	8%	485	8%	16	3%
Military/ Other Public	71	1%	68	1%	3	<1%
Unknown	55	<1%	52	<1%	3	<1%
Uninsured	1,213	19%	878	15%	335	54%
TOTAL	6,456	100%	5,839	100%	617	100%

The data in Exhibit 1 indicates that non-citizens comprise 10% of the total population and 28% of the uninsured population. Since eligibility in the Exchange will to a great degree be drawn from the uninsured, this suggests that Arizona may have a substantial uninsured population after implementation, even if all eligible Arizonans participate in the Exchange. The data also hints at the non-group market contributing a significant number of lives to the Exchange as most individuals in this category will be eligible and participate in the Exchange.

Exhibit 2 presents the 1.2 million uninsured residents of Arizona by Federal Poverty Level (FPL) and citizenship status. This report found that 37% of the total uninsured Arizona population meets the current income requirements for adults (100% of FPL) in the Arizona Health Care Cost Containment System (AHCCCS), the State Medicaid agency. While an additional 11% of the uninsured meet the Affordable Care Act (ACA) income eligibility limits for Medicaid (133% of FPL) along with 41% of the uninsured meeting the income requirements for subsidies in the Individual Exchange.

EXHIBIT 2. UNINSURED IN ARIZONA – TOTAL POPULATION 2008-10

FEDERAL POVERTY LEVEL	TOTAL POPULATION			CITIZENS			NON-CITIZENS		
	Number (thousands)	% of Total	Rate	Number (thousands)	% of Total	Rate	Number (thousands)	% of Total	Rate
Up to 100%	452	37%	35%	279	32%	27%	173	52%	67%
100 - 138%	131	11%	29%	90	10%	23%	41	12%	68%
138 - 150%	53	4%	31%	37	4%	25%	16	5%	77%
150 - 200%	157	13%	28%	112	13%	23%	45	13%	62%
200 - 250%	120	10%	22%	90	10%	19%	30	9%	46%
250 - 300%	92	8%	17%	75	9%	15%	17	5%	52%
300 - 400%	74	6%	10%	67	8%	9%	7	2%	8%
400%+	134	11%	6%	128	15%	6%	6	2%	8%
TOTAL	1,213	100%	19%	878	100%	15%	335	100%	54%

The data reveals that a considerable portion of the uninsured population is currently eligible but not enrolled in either AHCCCS or KidsCare (Arizona's Children's Health Insurance Program or CHIP). There are 162,000 children and 176,000 adults that meet the current eligibility limits for either AHCCCS or KidsCare. Under the ACA, an additional 62,000 uninsured adults will be eligible for AHCCCS at the higher Medicaid eligibility levels.

The report estimated the total number of individuals that would be eligible for health insurance through the Exchange and the total number of individuals that are expected to participate in the Individual and SHOP Exchanges or the public side of the Exchange. For the Individual Exchange, there will be 621,000 individuals eligible to participate with 478,000 individuals likely to enroll in either individual or family coverage through the Exchange. An estimated 246,000 new people will enroll in either AHCCCS or KidsCare through the Exchange. Finally, 510,000 lives will likely purchase health insurance coverage through the SHOP Exchange.

Exhibit 3 shows the estimates of the number of eligible lives for AHCCCS and the Individual and SHOP Exchanges. The Exhibit distributes the Arizona population by current coverage type and the number of individuals within each coverage type that will be eligible to obtain coverage through the Individual Exchange, AHCCCS or required to seek coverage through employer-sponsored insurance in the SHOP Exchange to comply with the individual mandate in the ACA.

EXHIBIT 3. SUMMARY OF ESTIMATED CHANGES IN ELIGIBILITY IN ARIZONA – 2008-10

COVERAGE TYPE	CURRENT COVERAGE		COVERAGE CHANGING TO			REMAINING	POST- ACA ELIGIBILITY	
	Number (thousands)	Distribution	SHOP	AHCCCS	Individual Exchange	Number (thousands)	Number (thousands)	Distribution
Employer	3,344	52%			71	3,273	3,397	53%
Non-Group	261	4%		32	211	18	18	<1%
Medicaid/CHIP	1,011	16%				1,011	1,105	17%
Medicare	501	8%				501	501	8%
Military/ Other Public	71	1%				71	71	1%
Unknown	55	<1%				55	55	<1%
Uninsured	1,213	19%	124	62	339	688	688	11%
Exchange							621	10%
TOTAL	6,456	100%	124	94	621	5,617	6,456	100%

Exhibit 4 presents the estimate of the number of participants for the Exchange. It shows the Arizona population distributed by current coverage type, the number of individuals within each coverage type that will obtain coverage through the Individual Exchange, AHCCCS or from their employer, and the distribution of coverage after implementation of the ACA.

EXHIBIT 4. SUMMARY OF ESTIMATED CHANGES IN COVERAGE IN ARIZONA – 2008-10

COVERAGE TYPE	CURRENT COVERAGE		COVERAGE CHANGING TO			REMAINING	POST- ACA COVERAGE	
	Number (thousands)	Distribution	SHOP	AHCCCS	Individual Exchange	Number (thousands)	Number (thousands)	Distribution
Employer	3,344	52%			71	3,273	3,335	52%
Non-Group	261	4%		32	211	18	18	<1%
Medicaid/CHIP	1,011	16%				1,011	1,257	20%
Medicare	501	8%				501	501	8%
Military/ Other Public	71	1%				71	71	1%
Unknown	55	<1%				55	55	<1%
Uninsured	1,213	19%	62	214	196	741	741	12%
Exchange							478	7%
TOTAL	6,456	100%	62	246	478	5,670	6,456	100%

The research demonstrates that when the Exchange is fully operational, it has the potential to reduce the number of uninsured individuals by 472,000 lives. The majority of the remaining uninsured lives in Arizona are non-citizens who are ineligible for either the Individual Exchange or Medicaid/CHIP. The total number of people eligible for the Arizona Health Insurance Exchange is more than 1.8 million lives and the number of likely participants is more than 1.2 million lives. This information will be incorporated into planning the capacity of the Exchange website and call center, as well as the financial management of the Exchange.

The full report has been posted to the Exchange website: www.azgovernor.gov/hix.

2.2 Stakeholder Consultation

Stakeholder involvement has been a critical component of the Exchange planning process. An Exchange website was constructed as part of the Governor's Office website to make relevant planning documents available to all stakeholders. In order to gather information from a broad spectrum of stakeholders, Arizona designed and distributed a questionnaire regarding key design and operational issues. It provided a structured way of soliciting input from the public on the Exchange. Both the questionnaire and results are available on the Exchange website with the latter being updated monthly.

To facilitate input on the Exchange core functions, Arizona formed the following stakeholder work groups:

- Health Plan Work Group
- Health Insurance Brokers and Agents Work Group
- Tribal Work Group
- IT Infrastructure Work Group
- Legislative Work Group

Each of the work groups is actively meeting and discussing the key design and operational issues in their respective areas. The health plan and the health insurance brokers and agents work groups are lead by the Arizona Department of Insurance (ADOI). The health plan work group is developing the qualified health plan certification, recertification and decertification process, risk adjustment and transitional reinsurance and quality rating requirement. While the broker and agents work group is focused on broker certification, compensation, Navigator program and other marketing issues.

The Arizona Health Care Cost Containment System (AHCCCS) has taken the lead with the IT Infrastructure work group. This work group consists primarily of internal agency staff from the three State agencies (ADOI, AHCCCS, and Arizona Department of Economic Security or ADES) responsible for various aspects of Medicaid, health insurance and the Exchange. Stakeholders have been consulted in the IT gap analysis and will continue to be involved in the design of the Exchange website.

Additionally, Arizona has 22 federally recognized tribes, with more than 300,000 Native Americans living on and off reservations. To ensure that tribal issues are raised and addressed in the Exchange planning and development, Arizona formed a tribal work group that is lead by the Inter-Tribal Council of Arizona, Inc. Each tribal government has been invited to participate in the work group. This work group is developing a public education and outreach campaign to educate tribal governments, employers on the reservations and tribal members about the Exchange.

Arizona's Exchange team held an extensive series of meetings with stakeholder groups to gather input and provide updates on Exchange planning activities. This process included individuals and/or groups within health plans, brokers, public advocacy, legislators, providers, local chambers of commerce and other business groups and community health centers. The Exchange team conducted one-on-one meetings with individual stakeholders, informal group meetings and made numerous presentations to larger groups in both the Phoenix and Tucson areas. Arizona has used this opportunity to educate stakeholder groups about the Exchange and why a state-based Exchange is in Arizona's best interests.

2.3 State Legislative/Regulatory Actions

Two bills, HB 2666 and SB 1524, were introduced in the recently concluded legislative session. However, neither bill was enacted into law. Because of opposition from Republican State legislators who oppose any implementation of the ACA, Governor Brewer decided not to push for legislation in the 2011 legislative session. A legislative work group consisting of the chairs, vice chairs and minority spokesmen

of the respective Banking and Insurance Committees along with the Health Committees of the House and Senate is being formed to keep key legislators updated on Exchange planning and implementation activities and to address any outstanding questions or issues.

The Governor's legal counsel is researching options for establishing an Exchange that can comply with the Federal requirements without legislation specifically authorizing or establishing an Exchange. This research will allow Arizona to determine exactly what legislation authorization is required and when legislation is needed.

2.4 Governance

Arizona has had extensive discussions with stakeholders through the various work groups and separate meetings on the proper governance of the Exchange. The consensus among the stakeholders is to establish the Exchange either as part of an existing State agency such as the Governor's Office or as a separate State agency. Arizona will not create a non-profit entity to run the Exchange.

Determining options for the exact governance structure for the Exchange including whether a Board of Directors is necessary is part of the research the Governor's legal counsel is conducting. A final resolution of the governance of the Exchange will be part of the Level One Establishment Grant outcomes.

2.5 Program Integration

The Arizona Health Insurance Exchange has established an organizational structure to ensure that all State partners and their business models are fully integrated into the Exchange planning process. The Arizona Health Insurance Exchange Steering Committee has been established and meets regularly to facilitate communication with State partners, identify and resolve issues, make policy regarding the Exchange and ensure the establishment of the Exchange is moving forward. The Steering Committee includes:

- The Executive Director of the Arizona Health Insurance Exchange;
- The Director and senior management of the Arizona Department of Insurance (ADOI);
- The Director and senior management of the Arizona Health Care Cost Containment System (AHCCCS), the State Medicaid agency;
- The Director and senior management of the Arizona Department of Economic Security (ADES), who determine eligibility for Medicaid recipients, as well as Supplemental Nutrition Assistance Program (SNAP) and Temporary Assistance for Needy Families (TANF);
- The Director and senior management of the Arizona Department of Health Services (ADHS), who provides behavioral health services for Medicaid recipients and run other public health programs; and
- The Director of Health Care Innovation Infrastructure Management, responsible for the IT development of the Exchange and for the implementation of the Medicaid expansion.

The IT leadership Team has been developed to ensure that all State partners are actively engaged in the planning, design, development, testing, implementation and post implementation of the Exchange. The team is led by the Director of Health Care Innovation Infrastructure Management and includes senior management and project managers from ADOI, AHCCCS, and ADES. These partners are working together to ensure that the commercial components of the Exchange are as integrated with Medicaid, CHIP, SNAP and TANF as possible.

Planning grant money was used by ADOI to retain the Government Human Services Consulting unit of Mercer to identify and outline specific roles ADOI could play in the Exchange. This included a review of current regulations and processes, and a comparison with Exchange core functions. It also involved meeting with staff from other State agencies to ensure coordination and to consider where certain core functions would best reside.

The plan management gap analysis concluded that the primary areas where ADOI could perform core Exchange functions included:

- Certification, decertification and recertification of qualified health plans;
- Review of rate and form filings;
- Review of qualified health plan quality strategy and ratings;
- Other core functions related to collecting information or reviewing activities of qualified health plans;
- Enhanced role in providing consumer assistance;
- Review, licensing and monitoring of Navigators; and
- Transitional reinsurance and risk adjustment oversight.

The Level One Establishment grant will be used to formalize the roles that ADOI, AHCCCS and ADES will play in the Exchange. The Arizona Health Insurance Exchange has established an organizational structure to ensure that all State partners and their business models are fully integrated into the Exchange.

2.6 Exchange IT Systems

The Affordable Care Act (ACA) is a game changer both in terms of the culture of enrollment in public, private and subsidized health insurance and in terms of the infrastructure needed to support the enrollment process. IT readiness will play a critical role in establishing a streamlined and integrated "no wrong door" process for accessing both public and private benefits under ACA.

The State of Arizona initiated an IT gap analysis project early in the planning process to help Arizona hone its vision for implementing health care reform in the most prudent and efficient way. A national non-profit organization, Social Interest Solutions (SIS), was selected to do the following:

- Provide a detailed assessment of Federal reform requirements and incorporate updated Federal guidance;
- Inventory and assess relevant Arizona systems' readiness and gaps for meeting ACA requirements and complying with Federal guidance to determine functionality and potential for use in the Exchange and Medicaid expansion (mapping systems against current Federal IT systems guidance);
- Create a technology gap analysis to inform consideration of alternative options;
- Evaluate the potential for the Arizona Technical Eligibility Computer System (AZTECS) database to meet ACA requirements and assess the feasibility of using Health-e-Arizona as a front-end to AZTECS for users; and
- Provide options for consideration to implement an Exchange and Medicaid expansion, with cost projections and associated benefits and risks for each option.

A variety of activities took place to accomplish these tasks and to assess that the State's readiness to keep pace with new Federal guidance and other environment developments.

2.7 Approach

The overall approach to this analysis was based on the fundamental principle that the ACA and subsequent Federal guidance related to Exchanges, Medicaid expansion, eligibility and enrollment systems and program integration offer an amazing opportunity to modernize systems to support efficient processing and management of public benefit and private insurance applications.

Also, the SIS project team interviewed key stakeholders at the Arizona Health Care Cost Containment System (AHCCCS) and the Arizona Department of Economic Security (ADES) and conducted system reviews, on-site walk-throughs, and detailed standard, functional and security evaluations. The SIS project team also interviewed key stakeholders at the Arizona Governor's Office, Department of Insurance, Government Information Technology Agency (GITA), representative advocates, brokers, and health plans. The information and insights gathered from these interviews were used throughout this analysis.

In addition to these steps, the project team reviewed ACA and related guidance materials, conducted an eligibility and enrollment inventory, assessed the functionality of the current IT infrastructure, identified assets than can be leveraged for the Exchange and Medicaid expansion, reviewed the technical platform of the current systems, and identified various options for the State.

The project team conducted analysis of the Arizona technology systems to assess their ability to meet the requirements for the Exchange and whether they can be leveraged to meet identified gaps. This analysis included assessing upgrading the ADES' AZTECS database and using Health-e-Arizona, the State's web-based screening and application system for public assistance, as a front end to AZTECS. The State's systems were also assessed along with insurance company health plan and broker operational needs and systems were reviewed to determine if they might be used to support the insurance and SHOP operations of the Exchange.

The evaluation and analysis were based on the following:

- Whether the system possesses any specific function or feature required in the Exchange;
- Whether the system operates under an architecture that is compatible with Exchange architecture requirements and whether the system will be able to integrate with the Federal or a State Exchange;
- Whether the administrative and operational structures of the system allow for a cost-effective way for the State to leverage its functions or features;
- The amount of retrofit required to meet the requirements, risks associated with software integration or adoption, and others; and
- Evaluation of possible alternatives, including adopting or adapting existing assets versus purchasing, borrowing or building new software to assimilate functional, workflow and other capabilities identified in current software (Arizona assets) capabilities.

The summary of this analysis indicates that Arizona has some significant assets to leverage towards the Exchange solution. The analysis found:

- The AHCCCS' Prepaid Medical Management Information System (PMMIS) is a mainframe system that is stable, meets the current operating needs and can support what it needs to for the Exchange and Medicaid expansion. Accordingly, replacement or upgrade to PMMIS is not recommended. It will serve as a key foundational system for the Exchange

and will be integrated using the Arizona Technical Interface Project System (TIPS) data integration model.

- The AHCCCS' Customer Eligibility (ACE) system is a capable, hard worker for CHIP and other AHCCCS programs. ACE can continue to serve and support the programs well and could be used to support the Exchange and Medicaid expansion. However, a key issue with ACE is that both the database (Oracle) and the programming language (Visual Basic 6) used to build ACE are aging, and soon will no longer be supported (i.e. no maintenance) by the vendors. The State could make a decision to maintain the program on unsupported software, but an upgrade of the software is recommended. Since upgrading the software requires it to be re-written from client-server to web-based capabilities, SIS further recommends that the ACE be upgraded to a technical platform consistent with the Exchange and that it essentially takes advantage of the Exchange services and other components.

- The TIPS data exchange model and associated integration among AHCCCS, ADES and Health-e-Arizona systems is outstanding. This integration model is a key asset for the Exchange and Medicaid expansion which can be leveraged for other information Exchanges across State agencies. SIS believes that this model could be leveraged beyond Arizona to other states.

- Health-e-Arizona is already supporting consumer self-service and community-assisted applications. It is integrated with ACE and PMMIS at AHCCCS and AZTECS at ADES. This web-based system is sitting on a service-oriented architecture (SOA) with a robust enterprise service bus (ESB) that is Medicaid Information Technology Architecture (MITA) compliant. Further, this system meets the Health Insurance Portability and Accountability Act (HIPAA) security standards. While Health-e-Arizona will need to be modified to meet the Exchange consumer mediation and automated verifications, it meets many of the current Exchange requirements and can be leveraged to the future.

A more detailed evaluation of the strengths of Health-e-Arizona is below:

EXHIBIT 5.

Health-e-Arizona

Evaluation Criteria	Evaluation Summary
Whether the system possesses any specific function or feature required in the Exchange	Health-e-Arizona has several features and functions that are required in the Exchange including: • Creating and Managing User Accounts • Automated Verification with Federal Systems (USPS) • Automated Verification with State Systems (PMMIS) • Self service and Assisted Application Channels • New Application Process • Recertification and Change in Circumstance Process • Preliminary Eligibility for Traditional Medicaid and Other State Programs for Arizona by using a rules engine • Provider Selection • Point in Time Verifications using sophisticated Document Management Solution • Determining Premium Amounts • Support for Education and Outreach • Operating Second Tier Help Desk • Development of Reports • Generation of Notices using Email, Text Messaging and Mail In Notification
Whether the system operates under an architecture that is compatible with Exchange architecture and whether the system will be able to integrate with the Federal or a State Exchange	The architecture of Health-e-Arizona is compatible with the Exchange architecture. The system will be able to integrate with the Federal or a State Exchange.
Whether the administrative and operational structures of the system allow a cost effective way for the State to leverage its functions or features	Health-e-Arizona is already operational in Arizona and is integrated with the State systems. It provides a strong base for the exchange solution with lots of tools and features that can be re used. Because of this the administrative and operational structure of the system will allow a cost effective way for the State to leverage its features.
The amount of retrofit required to meet the requirements, risks associated with software integration or adoption, and others	There is a sizable amount of retrofit required for many of the features to meet the requirements in terms of presenting a "first-class" consumer experience, having more real time verifications with Federal and State systems, MAGI rules, implementing some of the consumer mediated features required by the Exchange and other requirements under ACA. The risk associated with the software integration and adoption is minimal because of the fact that the architectural support is already there and the fact that SIS follows an agile development methodology which minimizes the risk associated with meeting the timeline.
Evaluation of possible alternatives, including adopting or adapting existing assets versus consideration of purchasing, borrowing or building new software that can assimilate functional, workflow and other capabilities learned from current software (Arizona assets) capabilities	The possible alternatives to the features described above is to build from scratch which is not a cost effective and efficient mechanism since Health-e-Arizona provides strong existing assets that will can be tweaked.

- AHCCCS and ADES both operate capable call centers and both AHCCCS and ADES support document imaging systems that could also be scaled and leveraged to support the Exchange operations.

Arizona has put together system capabilities that, if leveraged, will allow it to focus on identified gaps to implement the Exchange, as well as Medicaid expansion. These assets clearly put Arizona ahead of many states when it comes to preparation for and availability of assets that can be leveraged to support the Exchange and Medicaid expansion.

Additionally, Arizona is committed to ensuring that it builds an Exchange using the standard industry Systems Development Life Cycle (SDLC), utilizing web services and service-oriented architectures, publishing business rules, complying with all recommended standards and meeting or exceeding security standards and controls.

The State will be developing modules based on those principles stated above that include: eligibility, enrollment, premium tax credit administration, health plan and payment management. The Exchange

will be integrated with the State's Medicaid and CHIP programs, and the State intends to pursue integration with SNAP, TANF, and potentially local health and public assistance programs. Lastly, Arizona intends to create robust interfaces with the Health and Human Services (HHS) Federal hub and other electronic sources of data.

2.8 Validation of the Gap Analysis

In order to validate the results of the gap analysis, Arizona hired FourThought, Inc. to conduct a validation study of the gap analysis. This report provided the results of an independent validation of the SIS gap analysis. It confirmed that the analysis was performed accurately that evaluated the capabilities of the current AHCCCS/ADES infrastructure, including the Health-e-Arizona system, as either meeting or being upgraded to meet the new requirements mandated for implementation by January 2014.

The proposed potential solutions presented by SIS were evaluated for the purpose of eliminating the gaps identified between the current infrastructure and the ACA requirements, based on the option eventually to be selected by the State. This assessment sought to confirm whether the options presented in the SIS report were sound and reasonable, from both technical and functional perspectives.

It also provided information on whether components of the SIS operation are sufficient to successfully manage key components of the Exchange (primarily an expansion of Health-e-Arizona) and integrate Medicaid and CHIP with the other Exchange components.

The following are a list of the major conclusions from the assessment of the gap analysis:

1. The gap analysis sufficiently met the needs for which it was undertaken. The specified scope of work has been satisfied.

2. The SIS organization and infrastructure are more than sufficient to technically handle an expansion of the Arizona environment.

3. As new information is unveiled through guidance documents and other clarification messaging, certain aspects of the gap analysis will need to be revisited.

2.9 Request for Information

Arizona wanted to hear from a variety of vendors who are developing Exchanges and components of Exchanges in the marketplace today before embarking on the development of a Request for Proposal (RFP) to procure additional components of the Exchange and integrating with Medicaid. The State released a Request for Information (RFI) on August 15, 2011 with a due date for responses of September 6, 2011. During the week of September 12-16, 2011, representatives from the Governor's Office, Arizona Department of Insurance (ADOI) and AHCCCS attended demonstrations from 13 vendors and vendor partnerships. The demonstrations and material submitted provided valuable information about a wide variety of products in production today and under development, as well as a variety of services that are available. Vendors not only brought interesting products and services to the table, but also a variety of compensation packages and most interesting, a number of unique philosophies about successfully implementing Exchanges.

The State will utilize this information in identifying what its needs to procure in products and services; how it wants to pay for it, and the flexibility and maturity of products it wants to see. All of this information will be vital to assist in forming an inventory of Arizona's Exchange needs, as it develops the RFP.

2.10 Financial Management

The State of Arizona recognizes the need for a strong system of financial management and accounting. The State Procurement Office (SPO), a division of the Arizona Department of Administration (ADOA), serves as the central procurement authority for the State of Arizona and is responsible for a variety of procurement services including regulatory services, policy-making, management, direct contracting and purchasing services, ancillary and support services as well as related technical assistance. The State's procurement process is based upon a compilation of statutes, A.R.S. 41-2501 et. seq., and administrative rules and regulations A.A.C. R2-7-101 et.seq., that constitute the Arizona Procurement Code (APC) publication. At its foundation, the APC establishes a competitive bidding process with awards made to the bids providing the best value (price and quality) to the State. Each individual agency or department such as the Governor's Office has agency procurement authority. The Governor's Office lead is John McCleve, Director of the Governor's Accounting Office and State Comptroller. He and his staff will continue to provide fiscal management support to the Health Insurance Exchange team with respect to the Level One Establishment Grant as they did with the Planning grant.

Currently, the fiscal management of the Planning grant is handled within the Governor's Office. This same office has been responsible for the administration of $3.0 billion in American Recovery and Reinvestment Act (ARRA) funding. Federal grant receipts and disbursements are given a unique identifier in the State's financial management system in order to segregate these funds from other funding and revenue streams, allowing for more concise reporting and grant reconciliation. A disbursement from the grant begins with the completion of a purchase order, travel request, request for reimbursement, or other approved form of payment request by the entity requesting the use of funds. These requests are reviewed by the Governor's Office staff for appropriateness to the grant and to ensure that agreements/contracts have been executed, the cost of the services are accurate, and all supporting documentation has been attached to the requests. After that initial satisfactory review and approval, these requests are forwarded to a Director-level staff person for final review and approval. Finally, these requests are sent to the Governor's Accounting Office where a similar process is followed and payment is finally issued.

Additional measures employed by the State to ensure the proper management and use of grant funds include the following:

- A Governor's Office, Microsoft Access time & effort reporting system which tracks employees' activities related to grant funding in accordance with 2CFR, Part 225;
- The use of electronic funds transfer (EFT) whenever feasible;
- Monthly reconciliation; and
- Proper segregation of roles and responsibilities within the fiscal area responsible for managing,
  disbursing and reconciling the grant funds.

Additionally, the United States Congress passed the Single Audit Act of 1996 to establish uniform requirements for audits of federal awards administered by states, local governments, and non-profit organizations. The Act requires an audit of the State's financial statements and its use of federal awards. In Arizona, the Single Audit reports are conducted by the Arizona Office of the Auditor General. This Office has audit responsibility for State agencies (which includes the Governor's Office), counties, universities, community college districts, and school districts. Also, it completes highly specific research and investigative projects in response to legislative requests.

2.11 Program Integrity

As stated above, the Governor's Office has been both the grants manager and statewide coordinator of the ARRA funding. In establishing the grants administration process, the Governor's Office secured the resources of two national consulting firms, KPMG and Deloitte, to help develop internal controls, sub-recipient monitoring protocols, performance measurement tools and processes for preventing waste, fraud and abuse.

2.12 Health Insurance Market Reforms

Mercer performed a gap analysis for ADOI that consisted of reviewing the existing insurance statutory and regulatory requirements with the health insurance market reforms contained in subtitles A and C of the ACA. ADOI staff and Mercer consultants are still reviewing the gaps in Arizona laws and regulations to determine the need for legislation in the upcoming legislative session.

ADOI has been providing notifications to Arizona licensed health insurers that do not appear to be in compliance with those market reforms that have already gone into effect. ADOI intends to issue a regulatory bulletin that will bring Arizona's independent health care appeals process into compliance with the Federal requirements in the ACA.

2.13 Providing Assistance to Individuals and Small Businesses, Coverage, Appeals, and Complaints

As part of the gap analysis Mercer conducted for ADOI, it examined and inventoried the various consumer assistance programs available through AHCCCS and ADOI. The report identified the mechanisms and procedures currently in place to address consumer inquiries, including eligibility assistance, grievances and appeals processes. This included the need to coordinate and facilitate communication with the various agencies that currently oversee these processes to ensure a seamless system to handle consumer assistance and complaints.

Mercer conducted a number of meetings with staff from ADOI and AHCCCS to examine the current staffing resources, call volumes, tracking and reporting capabilities and infrastructure. The infrastructure includes telephony, web portals and databases used to capture complaints and grievances, and respond to inquiries and appeals. The gap analysis identified existing resources that could be leveraged for use by the Exchange but also identified those systems and procedures that will need to be upgraded to be compliant with the requirements in the ACA.

2.14 Business Operations/Exchange Functions

As part of the Exchange planning process, the IT and the plan management gap analysis reviewed the required Exchange functions to determine what existing State agency procedures and processes could be utilized by the Exchange to meet the core functions and what functions will need to be developed through both Level One and Two Establishment grants. The work groups have begun examining the core functions and developing work plans and time lines for each of the functions.

2.15 Certification, Recertification and Decertification

The Exchange planning team has made the policy decision to follow the market facilitator model rather than the active purchaser model. This approach will allow the Arizona Health Insurance Exchange to build upon the State's existing strong and competitive insurance market and utilize market forces to provide affordable, high quality health insurance to Arizonans.

The plan management gap analysis focused on the certification, decertification and recertification of qualified health plans, quality rating of qualified health plans, Navigator program and risk adjustment and transitional reinsurance. The health plan and broker and agent work groups have begun reviewing the requirements in these core functions and developing plans to meet each function. The gap analysis has identified the current standards for licensure and other regulatory requirements and matched them

against the requirements for certification of qualified health plans. Arizona intends to use the nine criteria in the ACA as the requirements to be certified as a qualified health plan in the Arizona Health Insurance Exchange. The certification process that is being developed will ensure adequate time for health insurers to build and submit applications for certification, approval by the ADOI and uploading to the Exchange website before the initial open enrollment period that begins October 1, 2013.
The following chart (Exhibit 6) lays out the qualified health plan certification and selection process. As stated earlier, it utilizes the market facilitator approach rather than the active purchaser model. The chart lays out the process and responsibilities for the Exchange, ADOI and health insurers in order to meet this key core function.

The second chart (Exhibit 7) lays out the time line for the qualified health plan certification and selection process. This timeline was developed to ensure that health insurers have adequate time to develop their applications for certification, ADOI has sufficient time to properly review and certified applications and the web site vendor can upload the qualified health plans to the Exchange web site and do the necessary testing.

Exhibit 6.

Qualified Health Plan Certification and Selection Process

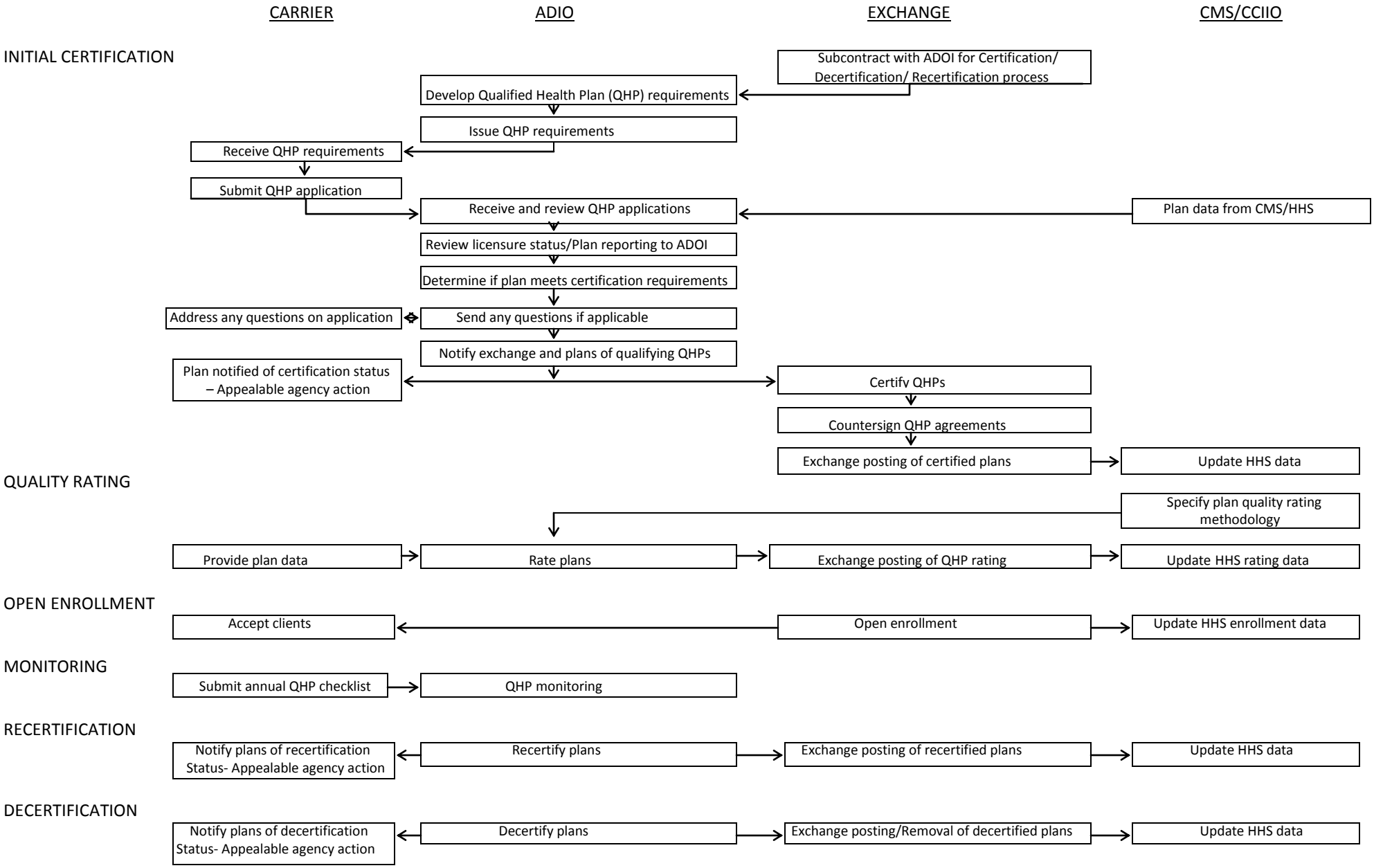
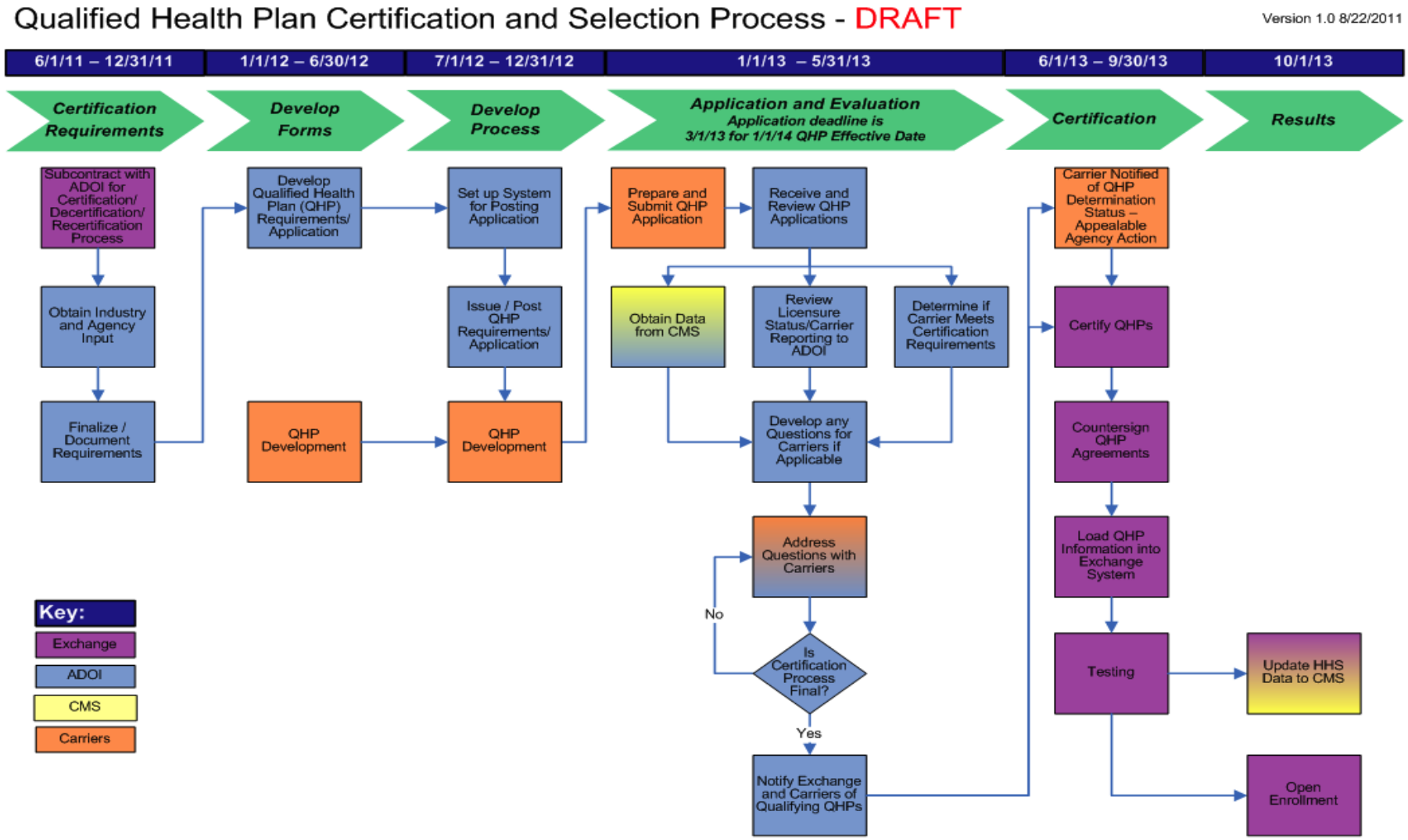


Exhibit 7.


Qualified Health Plan Certification and Selection Process - DRAFT
Version 1.0 8/22/2011
6/1/11 – 12/31/11
1/1/12 – 6/30/12
7/1/12 – 12/31/12
1/1/13 – 5/31/13
6/1/13 – 9/30/13
10/1/13
Certification Requirements
Develop Forms
Develop Process
Application and Evaluation
Application deadline is 3/1/13 for 1/1/14 QHP Effective Date
Certification
Results
Subcontract with ADOI for Certification/ Decertification/ Recertification Process
Obtain Industry and Agency Input
Finalize / Document Requirements
Develop Qualified Health Plan (QHP) Requirements/ Application
QHP Development
Set up System for Posting Application
Issue / Post QHP Requirements/ Application
QHP Development
Prepare and Submit QHP Application
Receive and Review QHP Applications
Obtain Data from CMS
Review Licensure Status/Carrier Reporting to ADOI
Determine if Carrier Meets Certification Requirements
Develop any Questions for Carriers if Applicable
Address Questions with Carriers
No
Is Certification Process Final?
Yes
Notify Exchange and Carriers of Qualifying QHPs
Carrier Notified of QHP Determination Status – Appealable Agency Action
Certify QHPs
Countersign QHP Agreements
Load QHP Information into Exchange System
Testing
Update HHS Data to CMS
Open Enrollment
Key:
Exchange
ADOI
CMS
Carriers

2.16 Quality Rating System

The plan management gap analysis reviewed the requirements under the ACA that each Exchange assign a quality rating to each qualified health plan in accordance with the quality rating system that will be issued by the HHS Secretary. The gap analysis found that while AHCCCS requires its' contracted managed care organizations to submit quality data, submission of quality data is not regarded by the Arizona Department of Insurance to be licensed to sell health insurance in Arizona.

2.17 Navigator Program

Arizona has begun its review and planning for the Navigator program. This includes reviewing the statutory, regulatory requirements and Center for Consumer Information and Insurance Oversight (CCIIO) guidance on Navigators and conducting an environmental scan on Navigator issues. An internal work group has been formed to develop the standards, requirements and funding for the Navigator program. The broker and agent work group and other stakeholders are providing input into the structure, qualifications and suggested tasks for potential applicants for Navigator grants.

2.18 Risk Adjustment and Transitional Reinsurance

As part of the plan management gap analysis, Mercer consultants continue to research the data collection, data management and methodology requirements and processes to support the risk adjustment and transitional reinsurance programs required under the ACA. The Exchange team has started initial consultation with the health insurers on methodology and data reporting requirements under both programs. The Mercer consultants are reviewing the risk adjustment and transitional reinsurance Notice of Proposed Rule Making (NPRM) for additional guidance.

2.19 Exchange Website

The IT gap analysis that was conducted by Social Interest Solutions (SIS) included a detailed assessment of the ACA technology requirements and incorporated the updated Federal guidance. The analysis looked at the requirements for an Exchange website, premium tax credit and cost sharing calculator, applications and notices and information reporting to CCIIO and the Internal Revenue Service (IRS). SIS conducted an eligibility and enrollment system inventory and compared current systems to requirements under the ACA and the proposed rules to ensure a seamless process for applicants. The information gathered from the IT gap analysis and the background research will be used to build an Exchange website that will be fully integrated with the public programs, the Individual and SHOP Exchanges and has the capacity to handle the expected volume of enrollment in the three Exchange components.

2.20 Shop Specific Functions

As part of the IT gap analysis, SIS also looked at the specific functions required for the Small Business Options Program (SHOP). In order to convince small employers to purchase health insurance through the Exchange, the Exchange will need to provide those functions and options that will appeal to small employers. In order to compete with the highly competitive, small group market outside the Exchange, the Exchange will need to create an efficient and administratively simple process for small employers to purchase health insurance for their employees.

The Exchange planning process has begun to identity the key functions required for the SHOP. Those functions include eligibility and enrollment, premium billing and collections, financial management, employee plan choice, defined contribution and defined benefit options, customer service and call center and premium tax credit tracking and reporting. To further refine these functions, as stated earlier Arizona issued a Request for Information (RFI) to solicit information from potential IT and call

center vendors on what is currently available for the Individual and SHOP Exchange components. Again, the information gathered from the responses and demonstrations will be used to develop the Request for Proposal to select an IT vendor.

Proposal to Meet Program Requirements

Arizona has moved steadily forward with the planning for a state-based Health Insurance Exchange based on free market principles. Arizona's goal is to design and operate an Exchange that builds upon its existing healthy and competitive insurance market, maximizes competition and enhances consumer choice. Arizona's Exchange will follow the market facilitator approach rather than the active purchaser model.

Planning activities have focused on ensuring that the Arizona Health Insurance Exchange will operate in as efficient and transparent manner as possible. Keeping administrative costs low will also keep insurance premiums affordable for small business owners and consumers. Arizona's planning work has identified a number of existing resources that the Exchange can build upon to keep those costs as low as possible, while still meeting the Federal requirements for a state-based Exchange.

The Level One Establishment grant funding will finalize the design and operational decisions necessary to build an Arizona Health Insurance Exchange that will be ready for certification by January 1, 2013 and for the initial open enrollment period beginning October 1, 2013. This grant application details the actions and funds needed to meet the milestones under each of the core functions laid out by the Department of Health and Human Services, CCIIO. These grant funds will establish an IT design that incorporates the Individual and SHOP Exchanges along with Medicaid/CHIP into one Exchange that will be seamless for consumers. Following State procurement rules, contracts will be awarded during calendar year 2012 to build the Exchange website and IT infrastructure.

2.21 Background Research

Arizona has completed the background research to meet the milestones in this core area as discussed in the previous section. The information gathered on the number of individuals eligible for the Exchange and the number expected to participate in the Exchange is being factored into the design of the IT infrastructure to ensure the Exchange has the capacity to handle the expected volume.

Additional research will be conducted to refine the expected participation rates and to project enrollment trends into the three Exchange components over time. These projections will impact the financial management function and the financing options that Arizona chooses to fund the administrative costs of the Exchange.

2.22 Stakeholder Consultation

Arizona has engaged in an effective and robust stakeholder consultation process throughout the Exchange planning process. Stakeholder consultation has been designed to educate the public and key constituencies about the Exchange, solicit relevant information on key design and operational issues and build support for proceeding with an Arizona-based Exchange. Arizona will continue to engage stakeholders in meaningful ways during the planning and implementation process.

Stakeholder work groups will continue to meet on a monthly basis to provide input into the certification of qualified health plans, role of brokers and navigators, risk adjustment and reinsurance, tribal issues,

governance and IT design. An additional work group will be formed on public education and outreach to assist in the design and implementation of a marketing and public affairs campaign. The Exchange team will continue to convene ad hoc group meetings and conduct meetings with individual stakeholders on specific planning and implementation issues. Presentations to various groups around the State about the Exchange are already being planned for the next year.

Additionally, the Exchange team has and will continue to engage in formal consultation with the 22 Native American Tribes in Arizona. It is being coordinated by the Inter-Tribal Council of Arizona, Inc. (ITCA) through work group meetings. The Exchange intends to contract with the ITCA for development of a public education and outreach campaign geared towards Native Americans living on and off reservations. The ACA has certain specific design requirements that impact Native Americans that will be incorporated into the design and operations of the Exchange.

2.23 Legislative/Regulatory Action

The Governor's Office will continue to work closely with the Legislature and other stakeholders in the establishment of an Arizona-based Exchange. The Governor's Office believes as long as the ACA remains law, it is better for Arizona to establish its own state-based Exchange. A legislative work group consisting of the chairs, vice chairs and minority spokesmen of the House and Senate Banking and Insurance and Health Committees will be formed to provide information, answer questions and solicit support for the Exchange. Because legislation is not required to qualify for the Level One Establishment grant, Arizona does not intend to introduce legislation in the 2012 legislative session.

2.24 Governance

In consultation with stakeholders, Arizona will operate the Exchange out of an existing State agency such as the Governor's Office. While the Governor's office has the necessary statutory authority to design and operate an Exchange in compliance with the ACA requirements, the Governor's legal counsel is researching the issue and will prepare a legal memorandum that will determine if the current statutes provide sufficient authority to operate an Exchange that complies with the minimum Federal requirements and identify any gaps that must be addressed through legislation.

The legal research will also look at establishing the Exchange by Executive Order. Once the governance is resolved, the Exchange team will prepare bylaws and procedures to ensure public accountability, transparency and the avoidance of conflicts of interest.

2.25 Program Integration

The Health Insurance Exchange Steering Committee meets on a regular basis to review status of the various projects underway to implement the Exchange. Arizona intends to have the Exchange contract with the ADOI to perform the plan management functions and to contract with AHCCCS and ADES to perform the eligibility and enrollment functions. Regular meetings of the Steering Committee will ensure that overlapping issues and concerns are raised and resolved on a timely basis.

Arizona will use Establishment grant funding to draft Interagency Service Agreements (ISAs) outlining the responsibilities under the Exchange for ADOI, AHCCCS and ADES. As part of this process, each agency will develop a model of on-going Exchange related operating costs and the funding necessary for the Exchange to become self-sustaining by January 1, 2015.

During the Establishment grant period, Mercer will work with ADOI to outline the specific operational details of the health plan management functions required by the ACA that will be performed by ADOI.

This will include exploring the use of System for Electronic Rate and Form Filing (SERFF) or other software programs to fulfill the data collection and process requirements. Arizona's goal is to enable health plan management functions to be performed electronically in order to hold down administrative costs and make the Exchange as efficient as possible. Those health plan management functions that ADOI is expected to perform include:

- Certification, recertification and decertification of qualified health plans;
- Verification of coverage offerings;
- Quality rating system;
- Review plan submissions for compliance with ACA regulations on quality improvement strategies, use of standardize forms, and coverage offerings; and
- Consumer assistance and coverage appeals and grievances.

2.26 Exchange IT Systems

As a result of the gap analysis, the validation of the gap analysis and the RFI at this time the State intends to move forward with a plan to build the Arizona Health Insurance Exchange and implement Medicaid expansion based on leveraging its current infrastructure and filling gaps with new development. Health-e-Arizona, Arizona's web-based screening and application tool, meets many of the standards required for the Exchange and Arizona believes this tool can be expanded to incorporate many of the new business requirements. For areas that are deemed not efficient or practical to build within the current infrastructure, Arizona will acquire those components through the State procurement process and/or borrow them from other states or the Federal Exchange.

As demonstrated through the gap analysis, Health-e-Arizona is compatible with the Exchange architecture, utilizing web services architecture, a services-oriented architecture approach and leveraging the concept of a shared pool of configurable computing resources. Health-e-Arizona follows the standards established under Section 1561 of the ACA. Health-e-Arizona has a sophisticated eligibility rules engine that is encapsulated in a web service and provides simultaneous preliminary determinations for a broad range of programs. The rules engine also determines the verification of documents that are required for each program based on the program rules. Many of the program rules are complex and operate under a huge number of variables. The rules engine allows the Health-e-Arizona technical team to configure the complex program rules and also define hierarchy for each program.

Health-e-Arizona's security procedures are the result of years of continuous research, analysis, innovation, and evolution. Health-e-Arizona's goal is to provide a highly secure environment for the users to process applications and to protect the applicant. It uses HIPPA as a minimum standard in its security establishment, but also follows the standard set forth by every state in which SIS operates. Health-e-Arizona's security approaches have been reviewed by a number of independent third parties, as well as by jurisdictions (states and counties) with whom SIS works. In addition, SIS constantly monitors industry standards, practices, and security violations for information to make Health-e-Arizona and Arizona's technical environment even more secure. SIS meets Federal Information Processing Standards (FIPS).

Below are the FIPs standards and the approach used in Health-e-Arizona for meeting those standards:

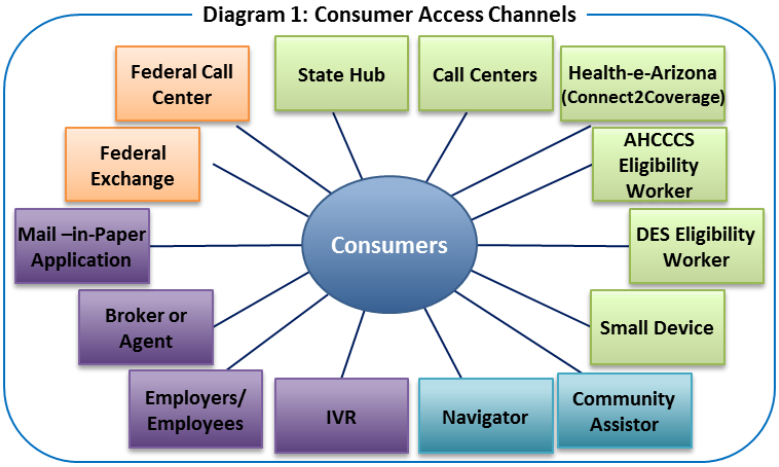
1) Individual Access: Health-e-Arizona allows persons with appropriate secure log-ons to access their personal data. Individuals are allowed to correct their own data if it is not correct.
2) Correction: Health-e-Arizona allows applicants to update their data.
3) Openness and Transparency: Health-e-Arizona provides consent, discloses applicants' rights and applicants are provided a summary of all the information they provided, and is able to view it all on-line.
4) Individual Choice: Individuals are informed where their data will be provided and will be used and are allowed to make a decision based on this information as to whether they want to provide their personal health information.
5) Collection, Use and Disclosure Limitation: Health-e-Arizona collects, uses, and/or discloses individually identifiable health information only to the extent necessary to accomplish a specified purpose(s) and never to discriminate.
6) Data Quality and Integrity: Health-e-Arizona and systems to which it interfaces have taken significant effort to insure data quality and integrity.
7) Safeguards: Health-e-Arizona and systems to which it interfaces meet industry standards for physical, administrative and technical security of the data collected and stored as part of the eligibility and enrollment process.
8) Accountability: Health-e-Arizona is subject to Statement on Auditing Standards (SAS) 70 security annual audit to make sure that it meets appropriate security standards.

Health-e-Arizona currently interfaces with three different State systems, the United States Postal Service (USPS), provides for account creation and management, utilizes electronic signature, facilitates both self-service and assisted application channels, facilitates initial applications, reports of changes and renewals, enables real time verification through a sophisticated document management system, calculates premium amounts, supports education and outreach, includes a reporting system and generates notices.

Currently over 40% of all initial applications and about 50% of all renewals for Medicaid come through Health-e-Arizona public access and assistor channels. Health-e-Arizona is enormously popular with the public. 70% of public users access the system in their own homes, 94% finds the system easy to use, over 90% would use it again and over 95% would recommend it to others.

Health-e-Arizona is integrated in communities throughout the Arizona. It currently has 100 different community organizations at over 300 locations throughout the State utilizing an assisted version of Health-e-Arizona to help their consumers apply for and renew coverage in Medicaid, CHIP, Medicare Savings Programs, SNAP, TANF, and other local health care programs such as discount medical services and sliding fee scale programs. With this degree of penetration into the community by Health-e-Arizona, Arizona intends to leverage this popular and robust tool as much as possible in creating the Arizona Health Insurance Exchange and fully integrating it with Medicaid, CHIP and other public assistance programs.

Consumers will either access the State Exchange directly, or will be routed to the State Exchange by any of the channels illustrated below:



The Arizona Health Insurance Exchange integrated with Medicaid and CHIP will perform all the required Exchange and integration activities including:

- Identity Resolution
- Create and Manage User Accounts
- Automated Verification with Federal Hub
- Automated Verification with State Systems
- New Application Process
- Recertification and Change in Circumstance Process
- Execute Modified Adjusted Gross Income (MAGI) Eligibility Rules
- Determine Preliminary Eligibility for Traditional Medicaid and Other Programs for Arizona
- Point in Time Verifications
- Provider Selection
- Determine Premium Amounts
- Determine Health Plan Eligibility
- Provide Plan Comparison and Selection
- Track Health Plan Enrollment and Disenrollment
- Perform Quality Rating
- Support Application Process for Exemption
- Support Eligibility Appeal Process
- Support Risk Assessment and Transitional Reinsurance
- Perform Cost Sharing Reduction Administration
- Support Education and Outreach
- Operate State Call Center
- Develop Reports
- Develop National Information Exchange Model (NIEM) Translator
- Provide Required Data to HHS
- Connect with the Federal Exchange or Portal
- Other activities as Required

The State Exchange, leveraged from the current infrastructure, will communicate with the State and other systems. Each State agency (AHCCCS, ADES, and ADOI), as well as health plans, will need to modify their systems and processes to connect to and integrate with the Arizona Health Insurance Exchange. However, this plan provides the maximum control and flexibility to meet Arizona's needs and offers the opportunity for Arizona to modernize its legacy systems.

Finally, this plan has the potential to meet Arizona's needs and leverage the Arizona infrastructure in a way that will modernize legacy systems and improve both staff and consumer experience. However, a considerable amount of work will be required since each State agency (AHCCCS, ADES and ADOI) will need to modify its systems and processes to connect to the State Exchange. Arizona will benefit from federal funding opportunities to build and enhance State information systems.

Note: This plan is referenced as Option 3 in the IT gap analysis.

EXHIBIT 8.

Conceptual Diagram

Leverage Existing State Systems and Fill Gaps with New Development

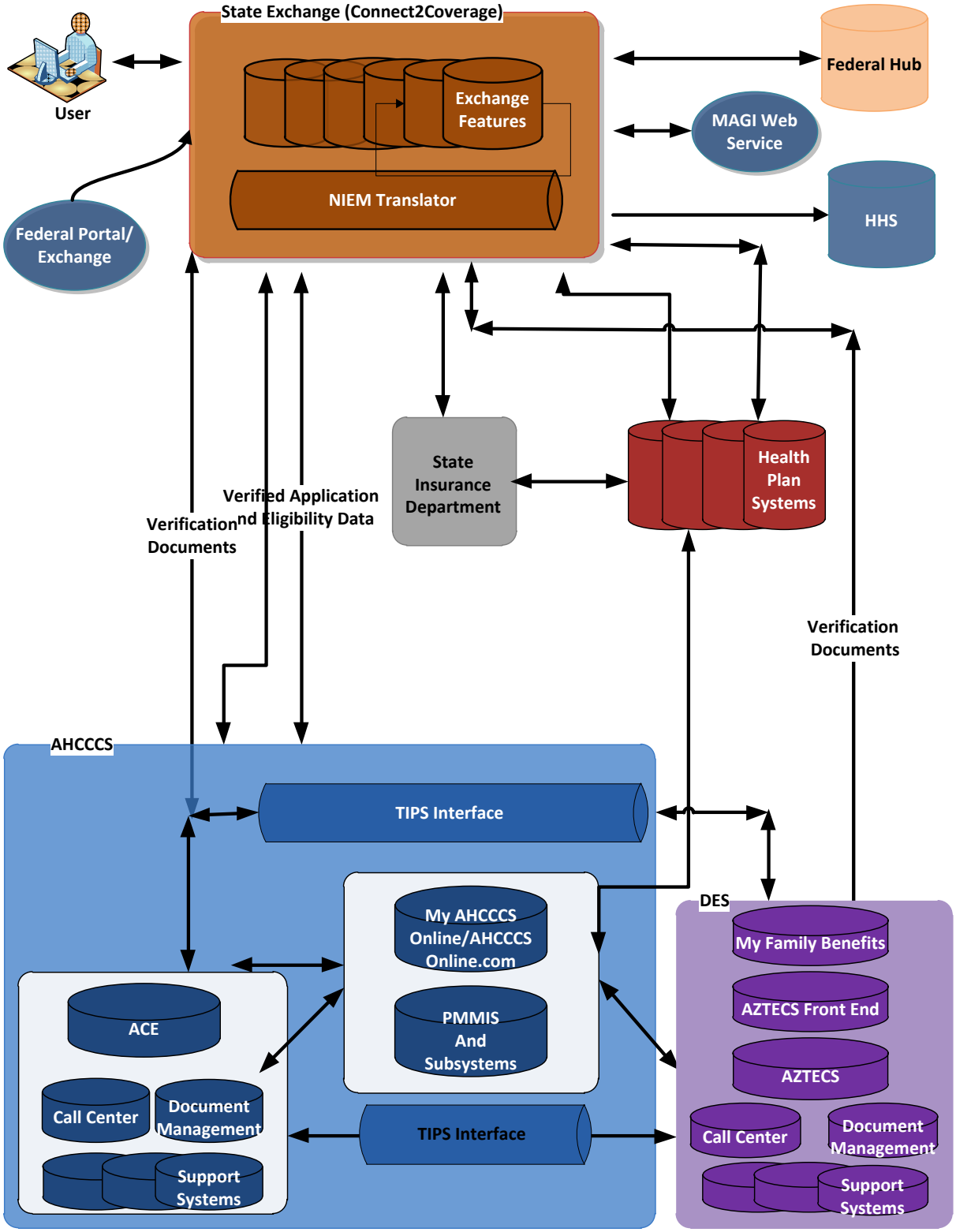
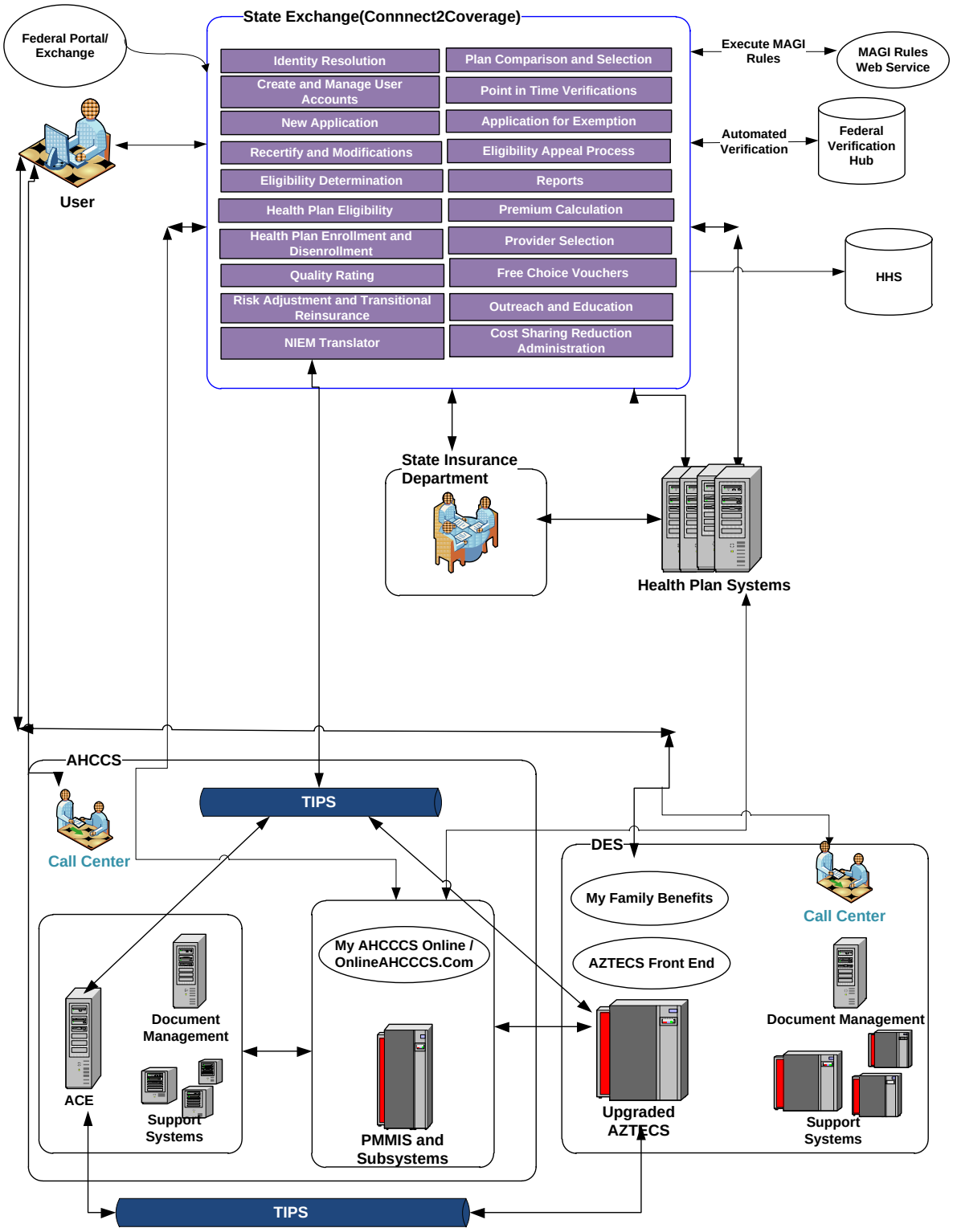


EXHIBIT 9.

Business Architecture
Leverage Existing State Systems and Fill Gaps with New Development Architectural View



2.27 IT Project Management

The State has contracted with Social Interest Solutions (SIS) as the Technical Project Manager for the project. SIS will report to the Director of Health Care Innovation Infrastructure Management and will work with multiple agency project managers to provide technical expertise, facilitate discussion and oversee completion of each phase of the lifecycle development process and assist Arizona in ensuring that the Arizona Health Insurance Exchange, as well as the Medicaid expansion, meets Federal and State requirements for the system and provides the best possible experience for consumers.

2.28 SDLC Phases

Initiation and Planning: The State expects to finalize project planning, risk analysis, project plans, timelines and a design concept for the system in the next 4-6 weeks.

Business and System Requirements: Over the next three months the State will be collecting and finalizing business and system requirements necessary prior to the completion of a system design plan and architecture. The project management team will meet with ADOI, ADES and AHCCCS business and system knowledge experts to compile requirements from known requirements, proposed and final regulations, guidance from Centers for Medicare and Medicaid Services (CMS) and Center for Consumer Information and Insurance Oversight (CCIIO) along with applicable Federal and State law.

System Design: Over the next 6 months, the State will be working with ADOI, ADES and AHCCCS to complete a design of the Exchange system integrated with Medicaid and CHIP, including the acquisition strategy, system security, detailed architecture and design plans, master data management plan, integration plan, detailed timelines and testing plans.

2.29 Request for Proposal and Leveraging Models from Other States

The State expects to release a Request for Proposal (RFP) in March 2012 to procure those components of the Arizona Health Insurance Exchange system that it does not expect to build or leverage from existing technology systems. The RFI process conducted in August and September 2011 provided excellent information about the availability of products on the market, as well as identifying products under development for some of the innovator grant states. The RFP will reflect the desire to borrow technology that has already been developed, while acknowledging there may be other licensing, software or hardware requirements that must be procured in tandem with borrowing from other states.

2.30 High Level Milestones

The following milestones reflect the early vision of development of the IT Exchange system.

EXHIBIT 10.

DRAFT IT DEVELOPMENT MILESTONES (month/year)	9/11	10/11 - 12/11	1/12 - 3/12	4/12 - 6/12	7/12 - 9/12	10/12 - 12/12	1/13 - 3/13	4/13 - 6/13	7/13 - 9/13	10/13 - 12/13	1/14 - 3/14	4/14 - 6/14
FUNDING												
Submit Planning Advance Planning												
Submit Level One Establishment												
Approval for PAPD												
Approval for Level 1 Establishment												
Submit Implementation APD for												
Submit Level Two Establishment												
PHASE 1: EXCHANGE FRAMEWORK & AFFORDABLE INSURANCE PROGRAMS												
System Business Requirements &												
Development												
System Testing												
PHASE 2: COMMERCIAL EXCHANGE PRODUCTS												
RFI Presentations for Commercial												
Analysis of RFI Data												
System Business Requirements &												
Develop RFP for Commercial												
RFPs Due												
Award Contract for Commercial												
Development												
System Testing												
PHASE 3: INTEGRATION OF EXCHANGE COMPONENTS												
Exchange Integration Business												
Certification of Exchange												
Development												
System Testing												
Integrated Testing												
Implementation												
Post Implementation												

2.31 Financial Management

The Governor's Office plans to continue to utilize the process described in the Financial Management section of the Demonstration of Past Progress in Exchange Planning Core Areas and those services provided to be charged as indirect costs as appropriate to the Level One Establishment grant. This same application was performed with these services during the Planning grant.

Lastly, the Governor's Office is committed to ensuring that the Exchange is financially sustainable beginning January 1, 2015, as required. Once the Exchange's business operations and functions are better defined and which funding has been requested within this application for that purpose, the State will then have the information needed to perform the financial modeling to project the required resources to support the Exchange moving forward to adhere to that requirement.

2.32 Program Integrity

As stated in the earlier Program Integrity section, the Governor's Office has a history and the resources to provide and ensure the appropriate safeguards and monitoring for this grant. The same practices applied to the Planning grant are applicable to the Level One Establishment grant. Therefore, the Governor's Office will not only provide the budgeting and accounting functions as stated but also the oversight of the Health Insurance Exchange project.

Much like Financial Management, as the business operations and functions of the Exchange are developed more in the Level One Establishment grant time period, the Governor's Office will address any needs associated with Program Integrity.

2.33 Health Insurance Market Reforms

Exchange Establishment grant funds will be utilized by ADOI to continue its work to reconcile the changes needed in either Arizona statutes or insurance regulations to come into compliance with the insurance market reforms and consumer protections contained in the ACA. In addition to conducting the necessary research for possible legislation, ADOI will monitor health insurer compliance with the ACA through review of insurer filings and analysis of consumer complaints.

As part of its contract with ADOI, Mercer will analyze the proposed essential benefits package rules when it is released and compare its coverage requirements to the various health insurance mandates required by the Arizona Insurance Code. Since the State's General Fund must pay for any increase in premium and cost sharing subsidies of any Arizona mandates that exceed the requirements in the essential benefits package, this analysis and comparison has significant financial and policy implications. Once the gaps are identified, Mercer will perform an actuarial analysis of the expected costs of any state-mandated benefits that exceed the essential benefits package. Legislation will be drafted to either repeal those mandates or exempt policies sold through the Exchange from those mandates.

2.34 Providing Assistance to Individuals, Small Business, Coverage Appeals and Complaints

The Planning grant was used to inventory and identify the various State programs to assist individuals and small business consumers navigate the health insurance system and determine if there is sufficient capacity to handle complaints, appeals and requests for assistance under the Exchange. Recent State budget shortfalls have had an impact on all State agency functions including consumer assistance programs.

The gap analysis found that the current ADOI call tracking process and IT system does not fully capture all consumer inquiries and the reporting capabilities are limited. The telephony system may lack the necessary detail to identify trends in consumer issues and to support reporting requirements to CCIIO. Additionally, the gap analysis identified a need to upgrade the process for logging, tracking, trending and reporting of appeals and grievances.

The Level One Establishment grant funding will be used to determine the feasibility of expanding and/or upgrading the current CISCO telephony system used by AHCCCS and ADOI. ADOI will initiate the procurement activities related to an RFP for either a new or upgraded telephony system to track consumer calls and consumer assistance data to identify trends and to support Exchange and CCIIO reporting requirements.

2.35 Business Operations/Exchange Functions

During the past year, the Arizona Health Insurance Exchange planning team has made considerable progress in identifying the core functions for the Exchange, which functions can best handled by another State agency and which functions should be performed by an outside vendor. This is in keeping with Arizona's goal of leveraging existing public and private sector resources to keep administrative costs as low as possible, while still meeting the requirements for a state-based Exchange under the ACA.

2.36 Certification of Qualified Health Plans

Certification is a key component of the Exchange's plan management functions. The Establishment grant will assist in finalizing the certification, decertification and recertification process. To take advantage of the existing expertise in reviewing insurer filings, the Arizona Department of Insurance (ADOI) is working with the health plan and broker work groups and other stakeholders, Arizona will finalize the requirements for certification by the end of 2011 to provide the health insurers sufficient time to develop their products for submission to the Exchange in 2013. The Mercer consultants and staff from the ADOI will play lead roles in finalizing this process.

Once the certification requirements are determined, ADOI, with assistance from Mercer, will develop the forms insurers will need to complete to apply for certification and develop the process for submitting those forms. Arizona is working with the National Association of Insurance Commissioners (NAIC) on modifications to the NAIC SERFF system for use as an electronic plan management system. Once the certification requirements, forms and process are completed, insurers will be able to submit applications for certification as qualified health plans beginning January 1, 2013.

The plan management team is working closely with the IT infrastructure team to coordinate time lines to provide enough time for uploading qualified health plans to the Exchange website and testing the links. The Arizona Health Insurance Exchange planning team believes this approach and time line will ensure there are a sufficient number of qualified health plans available for Arizona consumers to choose from when open enrollment begins in October 2013.

2.37 Quality Rating System

The Arizona Health Insurance Exchange will need to assign a quality rating to each qualified health plan offered on the Exchange. Once the Federal guidance is issued, Mercer will determine the specific requirements and the method the Exchange will require each qualified health plan to utilize to report quality information. In conjunction with the carrier work group, Mercer will also develop the information collection templates and time line. Insurers will be required to submit their quality rating data with their application for certification as a qualified health plan.

Arizona is including the quality rating functionality in its system business requirements model for the Exchange website and will continue to share information with the IT infrastructure team. Arizona's plan is to include quality rating information on the Exchange website prior to the initial open enrollment period in October 2013.

2.38 Public Education and Outreach

In an effort to notify and engage the public in the establishment of the Exchange, Arizona is requesting Level One Establishment grant funding to hire a consultant to research and implement the most effective communication plan and strategy to reach its diverse population. Through the grant funding, a hired consultant will be utilized to identify, outline, and execute a tailored public awareness campaign

specific to the people of Arizona. The resulting campaign will inform consumers about the Exchange and the new coverage options available to them.

Phase I – Preliminary stakeholder meetings: The State will facilitate multiple stakeholder meetings to assess the current needs, desires, and concerns of State agencies, employers, insurers, and advocacy/consumer groups (Fall 2011).

Phase II – Issue an RFP: An RFP will be developed and posted for a communications and/or marketing firm to conduct the outreach efforts (Winter 2011).

Phase III – Hire a consultant and conduct research: A consultant will be hired and begin research on the most effective marketing strategies to tailor a campaign specific to the Arizona population, with special consideration of the target audiences and the State's current political and social realities (early Spring 2012).

Phase IV – Implementation: The consultant will launch the public outreach/education campaign. This will include the development of education materials such as brochures, posters, public service and media advertisements (early Spring 2013).

Phase V – Evaluation: Stakeholders will assess the effectiveness of the public outreach/education campaign to date and recommend changes to the consultant as necessary (Fall 2013).

The ultimate goal is to develop an effective communications plan that will build awareness of the Exchange among Arizona consumers and small employers along with marketing the benefits of using the Exchange to find affordable health insurance. Therefore, stakeholders will be constantly engaged in input and feedback throughout the development, establishment, and outreach process. Recommendations regarding public education and outreach from the tribal work group will be incorporated into the overall communications strategy and campaign that the consultant will develop.

2.39 Navigator Program

An effective Navigator program will be essential to providing individuals and small employers with the assistance needed to effectively utilize the Exchange website to find the affordable insurance coverage that meets their coverage and budget requirements. Based on Arizona's research during the planning grant, the need for assistance will be greatest in the first few years of Exchange operations until consumers become more comfortable with the Exchange and buying insurance via the internet. Arizona will use the Establishment grant to finalize its Navigator program including qualifications, performance metrics and funding. The consultant hired to create the public education and outreach campaign will include in his/her recommendations the best use of Navigators. Additionally, the stakeholders involved in the development of the public education and outreach campaign will also assist in the development of the Navigator program.

As part of the IT infrastructure planning process, Arizona is incorporating the Navigator program into its system business requirements and the Navigator work group will keep the IT infrastructure team informed of its progress. Included in the system requirements, Arizona is exploring the use of online registration, education and testing of Navigators to ensure those groups selected as Navigators will be properly enrolled and trained in the use of the website and the requirements for eligibility and enrollment in public programs, subsidized private health insurance and the SHOP Exchange.

2.40 Risk Adjustment and Transitional Reinsurance

The ACA provides three mechanisms to address adverse selection risk corridors, risk adjustment and transitional reinsurance. All three programs are intended to stabilize the individual market. Establishment grant funding will be used to develop a white paper to enhance Arizona's understanding of how all three programs work, their requirements, the impact on the insurance market on and off the Exchange and how the three programs will work together.

The report will be prepared by Mercer and will contain options and recommendations for the Arizona Health Insurance Exchange leadership team to consider. Input from the health plan work group will be obtained on each of the various options. The report will include a time line for implementation that includes developing and implementing the data collection and financial model for the risk adjustment program and for the transitional reinsurance program.

Arizona does not have a State high risk pool to act as the transitional reinsurance mechanism. Nor does Arizona have an all payer claims data base or other mechanism to collect the data necessary for the risk adjustment program. One of the options that Mercer will explore is partnering with CCIIO on both the risk adjustment and transitional reinsurance programs.

2.41 Call Center

The IT gap analysis found that both AHCCCS and ADES operate capable call centers that handle a large volume of calls regarding Medicaid eligibility and enrollment issues that could be leveraged by the Exchange. The vendors, who made presentations in response to the Request for Information process, all offered call centers as an option for Arizona. The IT leadership team will develop and integrate the criteria for an effective call center that is fully integrated with Arizona's two existing call centers into the RFP to select the Exchange IT vendor. Contracts will be awarded in time to have the call center, protocols for customer service representatives, scripts written and establish procedures before open enrollment begins in October 2013.

2.42 Exchange Website

Building upon the information gathered from the IT gap analysis, the Request for Information and consultation with stakeholders and the Exchange Steering Committee, the Arizona Health Insurance Exchange website will be designed to:

- Meet all ACA and CCIIO IT requirements.
- Be fully integrated with the public programs, Individual and SHOP Exchange components.
- Consumer friendly and accessible to provide a simple, shopping experience that includes the necessary and appropriate decision support tools to assist consumers in finding affordable health coverage.
- Modular and scalable to allow for the Arizona Health Insurance Exchange to adopt new functions and capacity in response to changing demands from consumers.
- Provide for electronic plan management functions to assist in the certification of qualified health plans, determine quality ratings, access and update provider directories and other plan management functions.

2.43 Shop Specific Functions

The Request for Information that was issued as part of the Exchange planning process has provided the Exchange Steering Committee with needed information on the administrative, financial and health plan

selection services and functions that are be important to small employers. This information will be used to make the SHOP Exchange design and operational decisions which will appeal to small employers offering health insurance to their employees.

Establishment grant funding will build upon the information gathered during the planning process to finalize the design of the SHOP Exchange that is fully compliant with the ACA and the IT guidance issued by CCIIO. These design decisions will be incorporated into the Request for Proposals to secure an IT vendor that will be released in the first quarter of 2012. Those design options will include, but are not limited to:

- Employer options in selecting health plans;
- Employee options in selecting and enrolling in health plans;
- Premium billing, aggregation and collection;
- Eligibility for small business tax credits;
- Consumer assistance; and
- Involvement of insurance brokers.

3 Summary of Exchange IT Gap Analysis

The State of Arizona initiated an IT gap analysis project to help Arizona hone its vision for implementing health care reform in the most prudent and efficient way. A national non-profit organization, Social Interest Solutions (SIS), was selected to do the following:

- Provide a detailed assessment of Federal reform requirements and incorporate updated Federal guidance;
- Inventory and assess relevant Arizona systems' readiness and gaps for meeting ACA requirements and complying with Federal guidance to determine functionality and potential for use in the Exchange (mapping systems against current Federal IT systems guidance);
- Create a technology gap analysis to inform consideration of alternative options;
- Evaluate the potential for the Arizona Technical Eligibility System (AZTECS) database to meet ACA requirements and assess the feasibility of using Health-e-Arizona as a front-end to AZTECS for users; and
- Provide options for consideration to implement an Exchange integrated with Medicaid and CHIP, with cost projections and associated benefits and risks for each option.

A variety of activities took place to accomplish these tasks and to assess that the State's readiness kept pace with new Federal guidance and other environment developments.

3.1 Approach

SIS' overall approach to this analysis was based on the fundamental principle that ACA and the subsequent Federal guidance related to Exchanges, Medicaid expansion, eligibility and enrollment systems and program integration offer an amazing opportunity to modernize systems to support efficient processing and management of public benefit and private insurance applications.

In addition to analysis of Federal guidance, SIS interviewed key stakeholders at the Arizona Health Care Cost Containment System (AHCCCS) and the Arizona Department of Economic Security (DES) and conducted system reviews, on-site walk-throughs, and detailed standard, functional and security evaluations. SIS also interviewed key stakeholders at the Arizona Governor's Office, Department of Insurance, Government Information Technology Agency (GITA), representative advocates, brokers, and health plans. The information and insights gathered from these interviews were used throughout this analysis.

In addition to these steps, SIS:

1. Reviewed ACA and over 14 documents produced by the Federal government to establish standards and provide other guidance. This resulted in a detailed assessment of Federal reform requirements. It should be noted that this analysis addressed all guidance provided through May 3, 2011. More guidance is expected and the State will continuously update its ACA Exchange approach to stay in synch with the Federal government's communication and expectations.

2. Conducted an eligibility and enrollment system inventory through meetings and interviews with leadership and key staff from ADES and AHCCCS. Informants helped to identify and describe the complex key subsystems that could potentially be leveraged for meeting Federal requirements. Potential re-use of technology assets is possible because of the architecture requirements included in ACA guidance.

   The purpose of the system reviews was to determine the current functionality and to identify assets that may be leveraged for accomplishing Arizona's Exchange vision. Systems were assessed for both functional attributes (what the user needs to do via the IT system) and technical attributes (system architecture and integration capabilities) to support all or part of Arizona's Health Insurance Exchange systems requirements. Each system reviewed was assessed against current Federal requirements for ACA Exchanges.

3. Assessed both functional and technical attributes of Arizona existing, or legacy, systems to determine potential use or modification to meet Section 1561 of ACA requirements and inform the State's options. The functional assessment looked at what the user needs to do via the system and described this process in non-technical language (e.g. the application needs to support address verification once an address is entered).

4. Reviewed the technical platform of the AZTECS database and assessed it at a high-level with regard to its ability to support ACA requirements. In addition to on-site reviews and technical analysis, SIS met with ADES IT leadership to understand plans contemplated for upgrade.

5. Analyzed the impact of adopting Health-e-Arizona as the front end of AZTECS. This upgrade would provide Eligibility Workers at ADES a more user-friendly interface, more consistent with what consumers also use.

6. Results from the technology gap analysis were used to develop five options and analysis of associated resources, estimated costs and risks. The options included:

Option 1 – Adopt or default to the Federal Exchange
Option 2 – Join a multi-state solution
Option 3 – Leverage existing state systems and fill gaps with new development
Option 4 – Leverage existing state systems and fill gaps by borrowing
Option 5 – Build a solution from scratch

Each option was analyzed in context of the Arizona system ecosystem.

SIS conducted analysis of the Arizona technology systems to assess their ability to meet the requirements outlined in Section II and whether they can be leveraged to meet identified gaps. This analysis included assessing upgrading the AZTECS database and using Health-e-Arizona as a front end to AZTECS. The State's systems were also assessed and insurance company health plan and broker operational needs and systems were reviewed to determine if they might be used to support the Individual and SHOP operations of the Exchange.

SIS' evaluation and analysis were based on the following:

- Whether the system possesses any specific function or feature required in the Exchange;
- Whether the system operates under an architecture that is compatible with Exchange architecture requirements and whether the system will be able to integrate with the Federal or a State Exchange;
- Whether the administrative and operational structures of the system allow for a cost-effective way for the State to leverage its functions or features;
- The amount of retrofit required to meet the requirements, risks associated with software integration or adoption, and others; and
- Evaluation of possible alternatives, including adopting or adapting existing assets versus purchasing, borrowing or building new software to assimilate functional, workflow and other capabilities identified in current software (Arizona assets) capabilities.

3.2 Results of Analysis

The summary of this analysis indicates that Arizona has some significant assets to leverage to the Exchange solution. SIS' analysis found:

- The PMMIS system is a mainframe system that is not Medicaid Information Technology Architecture (MITA) compliant; however, it is stable, meets the current operating needs and can support what it needs to for the Exchange. Accordingly, SIS recommended not replacing or upgrading PMMIS. SIS stated that PMMIS will serve as a key foundational system for the Exchange and will be integrated using the Arizona TIPS data integration model.

- The ACE system is quite capable and is a workhorse for CHIP and other AHCCCS programs. ACE can continue to serve and support the programs well and could be used to support the Exchange. However, a key issue with ACE is that both the database (Oracle) and the programming language (Visual Basic 6) used to build ACE are aging, and soon will no longer be supported (i.e. no maintenance) by the vendors. The State could make a decision to maintain the program on unsupported software, but SIS

recommended an upgrade of the software. Since upgrading the software requires it to be re-written from client-server to web-based capabilities, SIS further recommended that the ACE be upgraded to a technical platform consistent with the Exchange and that it essentially takes advantage of the Exchange services and other components.

- The TIPS data exchange model and associated integration among AHCCCS, ADES and Health-e-Arizona systems is outstanding. This integration model is a key asset for the Exchange and can be leveraged for other information exchanges across State agencies. It was SIS' opinion that this model could be leveraged beyond Arizona to other states.

- Health-e-Arizona is already supporting consumer self-service and community-assisted applications. It is integrated with ACE, PMMIS at AHCCCS and AZTECS at ADES. This web-based system is sitting on a service-oriented architecture (SOA) with a robust enterprise service bus (ESB) that is MITA compliant. Further, this system meets HIPAA security standards. While Health-e-Arizona will need to be modified to meet the Exchange consumer mediation and automated verifications, it meets many of the current Exchange requirements and can be leveraged to the future.

- AHCCCS and ADES operate capable call centers and they support document imaging systems that could also be scaled and leveraged to support the Exchange operations.

Arizona has quietly put together system capabilities that, if leveraged, will allow it to focus on identified gaps to implement the Exchange. These assets clearly put Arizona ahead of many states when it comes to preparation for and availability of assets that can be leveraged to support the Exchange.

3.3 Arizona IT System Gaps

While Arizona has a number of system assets that can be leveraged for the Arizona Health Insurance Exchange, SIS also identified a number of Arizona information systems gaps with what is required under ACA. Based on its analysis, most of the gaps identified roll-up into five major areas that will need to be addressed no matter which option the State selects to implement an Exchange. Descriptions for the major gaps are summarized below.

1. The existing web application needs to be enhanced to meet the consumer mediated, automated verifications and private insurance choices ACA requirements.
2. There is no existing system that supports plan management capabilities.
3. The AZTECS database cannot handle the volume of real-time transactions required by ACA.
4. The PMMIS system resides on an older technology platform that may also need an upgrade. However, the upgrade is not critical for interacting with the Exchange since PMMIS already handles real-time transactions to meet Exchange requirements and projected increased volume.
5. ACE (KidsCare and other health programs) needs to be upgraded.
6. The current data exchange processes do not use the NIEM standard.

As noted in the prior section, the AZTECS front-end replacement is directly in line with requirements required to support the Exchange, and, therefore, SIS identified it as a gap related to ACA.

3.4 Arizona has Options

After identifying the Arizona system assets and gaps, five options were identified to fill the gaps. These options include:

Option 1 – Use the Federal exchange
Option 2 – Join a multi-state solution
Option 3 – Leverage existing state systems and fill gaps with new development
Option 4 – Leverage existing state systems and fill gaps by borrowing
Option 5 – Build a solution from scratch

Each option is described from the standpoint of how they integrate into the Arizona IT system ecosystem (except for Option 5, which creates an entirely new Arizona system ecosystem). Descriptions include an overview of the option and the key items that must be modified, added or that will remain largely unchanged should Arizona pursue the option. All five options will meet ACA guidance and associated currently known standards and requirements.

The options and assessment data served as the basis for estimating Arizona staff resources and work plans, timelines, costs, risks and other factors that should help guide Arizona leadership to determine which "gap filling" option is best for Arizona.

3.5 Option Analysis

SIS developed a high-level work plan for each option and more detailed work plans for Options 1 and 3 (as recommended by the Arizona leadership). The work plans are based on SIS' experiences in system development as well as its experience in working with Arizona.

There are many unknowns for each of these options. For example, for Option 1, little is known about what the Federal government will do to support and fund states that decide to use this option.

Likewise, for Option 2, SIS is aware that Utah is actively trying to establish a multi-state Exchange and has informed Arizona of its intentions, however little is known about other states that may be forming multi-state options. There are similar questions for the other options. Accordingly, SIS highlighted the assumptions or areas where more information or guidance is required to help inform decision-making and understanding.

The staffing resources provided are estimates and will need to be refined by the State and by the vendors the State selects to support its work. The estimates should serve as a benchmark as Arizona evaluates forthcoming information. The table below summarizes estimated State resources and costs by option, along with analysis of time considerations and risks associated with each option. The full report provides additional detail on resources and costs.

EXHIBIT 11.

	Option				
	1	2	3	4	5
			Leveraging Existing Arizona		
System Vendor Role	Use the Federal Exchange	Joining and Multi-State Solution **	. . . with New Development	. . . by Borrowing **	Build from Scratch (Rip and Replace) ***
State Total State Resource Cost Estimates	$ 746,504	$ 1,007,689	$ 1,254,904	$ 1,431,052	$ 4,293,156
Total Contractual (Vendor) Cost Estimates	$ 8,871,000	$ 21,871,000	$ 19,973,000	$ 20,150,000	$ 120,000,000
Total Estimated Costs by Option	$ 9,617,504	$ 22,878,689	$ 21,227,904	$ 21,581,052	$ 124,293,156
Financing Options	Uncertain	Esablishment and 90/10	Establishment, 90/10, GUX, Subscription Model	Establishment, 90/10, GUX, Subscription Model	Establishment, 90/10, GUX, Subscription Model
Meet ACA Timeline?	Likely	Not likeley	Moderately Likely	Not Likely	Least Likely
Risks (e.g. Complexity, Control, Known vs. Unknown, Time, Costs, Perforamnce, Strategic Alignment, Consumer Acceptance, Political)	Moderate	High	Lowest	Moderate	High

It is clear from SIS' analysis that:

- Each option has trade offs
- The challenge in meeting the federal timelines is herculean no matter which option or options are selected
- There is still much to be revealed in terms of guidance

After meeting with Arizona leadership, their analysis of the possible options identified Option 1 and 3 as the most viable. The analysis completed and documented in this report confirms these two options are the most viable. However, there is a concern regarding Option 1 (using the Federal Exchange) that must be explored in detail prior to proceeding with this option. The Federal government needs to clarify whether federal financing will be available under this option to integrate the State's systems with the Federal Exchange for required data exchange with Medicaid, health plans, Arizona Department of Insurance and others. Current guidance for federal financing options does not appear to support or provide financing to the State to cover development and IT costs to utilize the Federal Exchange solution. While this may appear to be the least expensive of the five options, it would not be prudent for the State to consider this option without federal financial support. Until these uncertainties regarding federal financial support can be clarified and evaluated, Option 3 appears to be the lowest risk, highest control, lowest cost option for Arizona. The details of the staff resources, risk assessment, estimated costs and next steps are presented in more detail in Sections 7 through 10 of the report.

If Arizona decides to proceed with Option 3, 4 or 5, SIS would recommend that the AHCCCS initiate discussions with Hawaii, since it currently also uses Arizona's PMMIS system. Hawaii may want to join Arizona to take advantage of the technical capacity being developed. If Hawaii should decide to proceed with Arizona, the Hawaii team should be engaged on the appropriate ACA Exchange committees as early as is practical in the project. The Arizona/Hawaii agreements would have to be modified to reflect the appropriate financial considerations.

3.6 Option 3: Leverage Existing Arizona Systems and Fill GAPS with New Development – Resource Overview

This section describes the high level work plan and the various tasks and activities that are associated with leveraging existing Arizona systems and filling the gaps with new development to implement an Arizona Health Insurance Exchange that meets the Federal requirements. The Arizona Health Insurance Exchange would be built on an upgraded model of Health-e-Arizona (known as Connect2Coverage) that has been modified to begin to reflect the ACA requirements, standards and guidance. Herein after, the Arizona Health Insurance Exchange will be referred to as Connect2Coverage.

Arizona has actively been working through and assessing its options from both policy and technical perspectives. The Planning grant activities have included meetings with stakeholders, discussions with State Agency leadership, preliminary system assessments and gap analysis with the results documented in this report, providing input to SIS on the Connect2Coverage prototype and analysis of upgrading the AZTECS front-end and database as special projects associated with this work. In addition to these activities, AHCCCS leadership has testified before the Office of National Coordinator (ONC) Enrollment work group and provided a number of other supports, input and guidance to that work group which helped guide the standards that were developed. In addition, the AHCCCS leadership and the Governor's Office staff have been active in CCIIO, ONC and CMS meetings and calls to make sure they are aware and learning all they can about the forth coming requirements. This Planning grant work serves as the basis for this work plan and associated timeline.

Note: Regarding the use and development of the Connect2Coverage Prototype. To further assess and evaluate the work ahead, SIS has developed a prototype that models the Federal standards and guidance while leveraging Health-e-Arizona. This prototype has allowed SIS to help gauge readiness and the ability to adapt the underlying asset, Health-e-Arizona; into an Exchange system should Arizona select Option 3. Connect2Coverage is modeled on early thinking of how the Arizona Health Insurance Exchange could accommodate the 1561 Standards, joint guidance from CCIIO and CMS and the requirements of the Establishment Grant and 90/10 Financing. It has helped illuminate, clarify and in some cases, raise more questions about how to best achieve a "first-class" consumer experience and meet all the required ACA compliance and standards. The prototype has also helped SIS think through the tasks and activities that the State has to undertake for the development, implementation and operations of the Exchange. It has been instrumental in shaping up the project work plan, resource allocations and budgeting and the activities described below.

3.7 Option 3: Summary Work Plan

SIS prepared a draft of the work plan based on the guidelines provided in the Establishment Grant application addressing the System Development Life Cycle (SDLC) requirements set forth by the Federal guidelines. Summarized below are the activities that the Arizona would have to undertake and execute to establish an Exchange that leverages existing Arizona technology assets.

- ***Determine the Financing Alternatives for this Option –*** This option would require the State to submit for the Establishment Grant and 90/10 financing. The State would need to establish a team to submit the appropriate grant requests, Advanced Planning Documents and other required budget forms to the CCIIO and CMS to secure the resources.

- ***Establish IT Governance –*** The IT governance for this project should be established and should include the Governor's Office Exchange leadership and associated leadership from ADES, AHCCCS and ADOI. This Governance group would be staffed by the

Governor's Office leadership and supported as needed by the project team. The IT Governance Committee would be provided status updates, support the team in making timely decisions and help the team overcome barriers.

- ***Establish Arizona Project Team –*** Certain positions should be secured, whether as employees or contracted positions to support the project and augment the cross-agency coordination that will be required. A key position is a Project Manager to oversee the IT projects. This person could be a current State agency staff person or may be someone who the State hires (staff or contract) to support the project. There are other key positions that also would be required to support this effort and are identified as resources required.

- ***Determine Procurement –*** Simultaneously with initiating the federal financial participation (90/10) and grant requests, the State should determine which services would need to be procured and mechanisms for procuring vendor support and options. The most obvious areas where vendor support would be likely under this option are: upgrade of the AZTECS database; using Health-e-Arizona (Connect2Coverage) as the AZTECS front-end; the Arizona Health Insurance Exchange (Connect2Coverage) and health plan aggregation and third party administration support for the SHOP Exchange. Procurement options would range from modifying existing contracts, to sole source contracts (where justified), to purchasing off the State contract, to competitive procurements. The vendor or vendor(s) selected through these procurement processes are hereinafter referred to as vendor in this work plan.
- ***Project Startup and Administrative Review –*** During this step various project initiation activities would be performed. The Connect2Coverage leadership team, the Arizona Project Manager, project leads for each Agency or stakeholder group and the vendor team leadership would meet to review the project and establish appropriate project operations, milestones, reporting, and other appropriate metrics to identify project progress. The resultant project administration would be on-going throughout the project and adjusted to accommodate evolving project needs. In addition, a critical function of the project start-up team would be to insure meetings with key stakeholder groups is established and a process for real-time exchange of communication and idea sharing, such as social networks or Really Simple Syndication (RSS) feeds, is implemented for use by the Connect2Coverage team. In addition, the IT Governance group would establish a plan and work with CCIIO to collaborate and report progress so that CCIIO's insights and direction are incorporated into the project as well as insuring the project meets the goals for both Arizona and CCIIO who would be representing other federal agencies for this project.

  The Connect2Coverage team will finalize project team members (project managers, subject matter experts and other team members) and will define roles and responsibilities for the team members. The project scope, implementation approach and performance measures will also be reviewed and updated based on the operational approaches established by the project leadership.

- ***Planning and Initial Technology Acquisition for Arizona's Commercial Insurance and SHOP Exchange –*** Arizona must seek technology that will support the essential information technology support elements for aggregating the commercial insurance

offering and the SHOP Exchange that allows for seamless consumer experience between these choices and public benefits. The planning and assessment for this commercial insurance and SHOP Exchange technology support to be integrated with Connect2Coverage would be done as one of the first steps in this process so that procurement activities could support the procurement for this type of support.

- ***Planning, Design, Development and Upgrade of the AZTECS Database –*** Arizona must identify an approach for upgrading or augmenting (data store) the AZTECS database to support more real-time processing as well as increase transaction volume that will be inherent with the changes in coverage accorded by ACA. These decisions should be made in the initial step of the project so that the vendor can be procured and the plan can be executed in tandem and coordination with the Connect2Coverage development and implementation. This component of the plan is likely to require some form of procurement.

- ***Planning, Design, Development and Upgrade of the AZTECS Front-End with Health-e-Arizona (i.e., Connect2Coverage) –*** Arizona must identify an approach for upgrading the front end of AZTECS with Connect2Coverage for eligibility workers to improve their support of consumers, efficiency, support of the call center and other activity associated with eligibility determination and associated case management. These changes should be done in a manner that is consistent with the Arizona Health Insurance Exchange so that workers are familiar with and working in context of a system that is similar to that used by consumers. Like the upgrade of the AZTECS database, these decisions should be made in the initial step of the project so that the vendor can be procured and the plan can be executed in tandem and coordination with the Connect2Coverage development and implementation.

- ***IT Project Dashboard Reports –*** The IT dashboard reports would contain high level status of the project that reveals the health of the project. Key indicators like schedule, effort, milestones, and progress percent and other stats will be indicated in these reports. These reports would display the current state of the project and help to identify current and future execution challenges. These reports would be submitted to CCIIO starting from project startup and would continue through post implementation on a weekly basis.

- ***Project Deliverables –*** One of the ongoing activities would involve managing the project deliverables as required by CCIIO and CMS. These deliverables would include dashboard reports, user manuals, system and operations manuals and other documentation required in the project. The State would assign appropriate staffing resources to work closely with the stakeholders and manage these deliverables starting from the project startup on an ongoing basis.

- ***Architecture Review –*** During this step, the Connect2Coverage team would confirm the business process model for the project and the requirements documents. The Connect2Coverage team would also review the architecture of the current State systems in Arizona such as the AZTECS, PMMIS, third party administrator systems for SHOP, and the state and federal portals; the system upgrades, transitions and/or replacement, planned for these systems to identify impacts on the integration of these

systems with Connect2Coverage. During this step, the team would work on an integration plan for Connect2Coverage with all these systems that are robust, flexible and service based, wherever possible. This integration would be supported by the Connect2Coverage enterprise service bus and service-oriented architecture.

- ***Project Baseline Review –*** The Connect2Coverage team would define and document the project charter and the project management plan. Both would be reviewed with the IT Governance group. Once approved, the Connect2Coverage team would publish project schedules and the proposed release plan. All these deliverables would be approved by the IT Governance group and reviewed with CCIIO.

- ***Preliminary Design Review –*** This step would include a preliminary review of the system design. The Connect2Coverage team would work on the following and would review results of analysis with the IT Governance group:

    - Technical architecture diagram
    - Logical data model employing the NIEM standards as set forth in 1561
    - Data flow diagram
    - Graphical User Experience (GUX)
    - System security plan
    - Test plan and traceability matrix

One of the major tasks that would need to be accomplished during this step is analysis and initial design of the consumer and employer user experience. The Arizona would work with GUX consultants to assist in development of the high level plan for GUX in Connect2Coverage. While the consumer and employers are a primary focus, the needs of all potential users (system administrators, eligibility workers, Navigators, brokers, agents, call center staff, health plans and others) would also be addressed in this process. Consistent with the 1561 standards and Federal guidance, the user experience must also address the FIPS, Hitch, HIPAA and the National Institute of Standards and Technology (NIST) privacy and security requirements for the consumer information. All this must also be reconciled with the Arizona State privacy and security regulations. The GUX must also insure that Connect2Coverage complies with accessibility requirements, be understandable and provide guidance to consumers and employers so they can make informed decisions as well as provide direction to persons who need assistance with their application in where to get help.

- ***Detailed Design Review –*** Once the preliminary design was completed, the Connect2Coverage team, with the GUX experts, would work on the detailed design of the system, including GUX, and interfaces.
- ***Final Detailed Design Review –*** The Connect2Coverage team would incorporate feedback in the Connect2Coverage prototype and update appropriate project documents. Once the feedback had been incorporated the Connect2Coverage prototype would be reviewed with the IT Governance group.

- ***System and Interface Development –*** Once the designs are finalized and memorialized in the Connect2Coverage prototype, Connect2Coverage team would start the development of the system and interface components. This would include building out additional features such as:

- Additional screens and data elements
- GUX changes
- Consume the Federal eligibility rules web services and modify the existing eligibility rules for the items that are not available in the Federal rules engine web services
- Address automated verifications to State systems like Vital Records, Income and Eligibility Verification System (IEVS), New Hires, Department of Motor Vehicles and others
- Translations of additional data elements
- Accessibility features for the additional screens and functionalities
- Security and privacy features for the additional functionalities
- Integration of the system with the State and Federal portals
- Many others

- ***Pre-Operational Readiness Review –*** This step would include system qualification and readiness review before the operational readiness plan is defined. During this step, the system and interfaces would be tested to ensure compliance with the requirements. The Connect2Coverage team would also prepare for the User Acceptance Testing (UAT).

- ***Operational Readiness Review –*** This process would be a final review and assessment of the readiness of the system for productive use. The Connect2Coverage team would prepare a go-live check list and will review it with the IT Governance group and appropriate persons responsible for systems who have interfaces with Connect2Coverage. This check list would include user support services that will be offered for Connect2Coverage. The IT Governance group would review the go-live checklist and approve the implementation of Connect2Coverage in the production environment.

- ***Implementation –*** During this step, the system and the interfaces would be implemented in the production environment. The following tasks would be executed:

  - Conduct training
  - Establish user support services (call center, live chat, help desk, etc.)
  - Move Connect2Coverage and the interfaces in the production environment
  - Complete data migration, if required
  - Complete the final Connect2Coverage and interface testing in the live production environment
  - Send go-live notification to the appropriate parties
  - Complete the go-live check list and review with the IT Governance group
  - Monitor use and user support services to insure smooth operations.
  - Review consumer and employer on-line survey results to monitor progress, identify areas where Connect2Coverage could be modified to better support users and review with IT Governance group

- ***Post-Implementation Evaluation –*** Once the system was implemented in the production environment, the Connect2Coverage team, in concert with the IT Governance group, would conduct various post-implementation evaluation activities.

3.8 Summary of Risks by Option

The following summary presents the risk related questions noted above and provides the responses for each based on the analysis conducted of each option.

EXHIBIT 12.

	Option						
	1	2	3	4	5		
			Leveraging Existing Arizona Systems and Filling the GAPS . . .				
Risk Questions	Use the Federal Exchange	Joining and Multi-State Solution	. . . with New Development	. . . by Borrowing	Build from Scratch (Rip and Replace)	Range 1 to 5	
						Low	**High**
How complex is the option?	**4**	**5**	**3**	**4**	**5**	**1**	**5**
How much control will the State have over the results?	**5**	**4**	**1**	**2**	**1**	**5**	**1**
How much is known versus unknown?	**4**	**5**	**3**	**4**	**4**	**5**	**1**
What is the level of project delivery complexity?	**3**	**5**	**3**	**4**	**5**	**1**	**5**
How long will this project eventually take?	**2**	**5**	**3**	**5**	**5**	**1**	**5**
How much will it finally cost?	**2**	**3**	**3**	**2**	**5**	**1**	**5**
Will its product perform according to specifications?	**4**	**4**	**3**	**4**	**5**	**5**	**1**
Does the option results support the long-term State strategies?	**5**	**5**	**2**	**2**	**1**	**5**	**1**
Will the resultant ACA Exchange support Arizonan's efficiently?	**4**	**4**	**2**	**2**	**1**	**5**	**1**
Will the option remain politically viable?	**1**	**2**	**2**	**2**	**5**	**5**	**1**
Total	**34**	**42**	**25**	**31**	**37**		

The results above indicate that all Options have a fair amount of risk, but Option 3 has the lowest level of risk. Establishing the project risk management associated with inherent risks is a scalable activity and should be addressed in the project staffing and selection of vendors to support the Options. Consideration of the risks should be commensurate with the size and complexity of the option under consideration. Given the significance of Arizona's Exchange and the risks identified above, when Arizona identifies its preferred Option and establishes a course of action to implement it, continuous project risk assessment and management should be imbedded in the project plan and execution. This process should include:

- The identification of risks
- The logging and prioritizing of risks
- The identification of risk mitigating actions
- The assignment and monitoring of risk mitigating actions
- The closure of risks

The project risk assessment may be used to formally assess any type of risk; however, the most frequent types of risks identified that relate to an IT development project are:

- Scope
- Deliverables
- Timescale
- Resources

Project risk factors may also be evaluated by taking into consideration such factors as:

- The project's strategic risk
- The project's operational/tactical risk
- The project's financial risk
- The project's compliance risk
- The project's reputational risk

Project risk assessment typically includes:

- Project information (such as project scope)
- A description of the risk identified
- An assessment of the risk's probability and impact
- Risk control options to minimize the probability
- Risk control options to minimize the impact
- Risk acceptance by the IT Governance group

The following section provides a summary of the options and recommendations for Arizona moving on to the next steps.

3.9 Conclusion and Next Steps

The good news is that Arizona has a very capable team and significant assets to leverage. State resources have been used to promote and build towards a vision of integrated technology that:

1. Supports electronic receipt of new, modified and renewal applications for Medicaid, CHIP, Medicare Savings Programs, SNAP, TANF and more.
2. Leverages the application process to community assistors and consumers.
3. Efficiently moves data to the right parties so decisions are made timely.
4. Uses automated verifications wherever possible.

The State visionaries who have pushed for this integration are capable of making ACA work for Arizona. This strong, insightful and technology savvy team is one of Arizona's strongest assets. The value of this asset should not be underestimated in helping Arizona manage this complex ACA Exchange endeavor.

The most obvious next step is for Arizona leadership is to review and assess the five options presented and determine which will best meet the State's needs. SIS provided a number of other steps that can be initiated while this decision is being made. As everyone in Arizona knows, time is of the essence and the State needs to make every moment count.

This gap analysis is an import project, which SIS hopes provides a foundation and a road map to help support Arizona prepare for the implementation of the ACA.

1. Will the resultant ACA Exchange support Arizonans efficiently?
2. Will the option remain politically viable?

These questions are posed in the future tense and those trying to establish an ACA Exchange or integrate with an ACA Exchange are being asked to predict and build towards an uncertain future. Regardless of uncertainties, it is prudent to evaluate what is known about the risks of each Option in an attempt to make the most informed decision about which option is likely to provide the best results for Arizona.

Social Interest Solutions would like to thank the Arizona State staff who so enthusiastically participated in and significantly contributed to this gap analysis. SIS also wants to thank Arizona leadership who has been willing to listen, ask questions and guide SIS throughout this project.

Like the definition of an ACA Exchange, the analysis of the assets in the State, the gaps to meet the ACA requirements and analyzing the options to fill the gaps is complex and has a lot of varying elements to it. The good news is there are options, and are provided a side-by-side comparison of the five options analyzed in this section so that Arizona leadership can review and assess each option and then go back to the prior sections to read more if that is required.

EXHIBIT 13.

	Option				
	1	2	3	4	5
			Leveraging Existing Arizona		
Analysis Category	**Use the Federal Exchange**	**Joining and Multi-State Solution ****	**. . . with New Development**	**. . . by Borrowing ****	**Build from Scratch (Rip and Replace) *****
Total State Resource Cost Estimates	$ 746,504	$ 1,007,689	$ 1,254,904	$ 1,431,052	$ 4,293,156
Total Contractual (Vendor) Cost Estimates	$ 8,871,000	$ 21,871,000	$ 19,973,000	$ 20,150,000	$ 120,000,000
Total Estimated Costs by Option	$ 9,617,504	$ 22,878,689	$ 21,227,904	$ 21,581,052	$ 124,293,156
Financing Options	**Uncertain**	**Establishment and 90/10**	**Establishment, 90/10, GUX, Subscription Model**	**Establishment, 90/10, Subscription Model**	**Establishment, 90/10, GUX, Subscription Model**
Meet ACA Timeline?	**Likely**	**Not Likely**	**Moderately Likely**	**Not Likely**	**Least Likely**
Risks (e.g., Complexity, Control, Known vs. Unknown, Time, Costs, Performance, Strategic Alignment, Consumer Acceptance, Political)	**Moderate**	**High**	**Lowest**	**Moderate**	**High**

What this analysis indicates is:

- Arizona has many assets upon which to build. These assets put the goal and timeline more in reach than it may be for other states;
- Even with these positive assets, Arizona has some system upgrades and build-out to do to meet the ACA Exchange standards;
- Arizona has a number of options to consider to "fill" the gaps and meet the Federal standards;
- Each option has trade-offs;
- The challenge in meeting the federal timelines is herculean no matter which option (or options) is selected; and
- There is still much to be revealed in terms of guidance.

3.10 The Future is Now

Standing up an ACA Exchange is fundamental to realizing the promise of health care reform. Arizona has completed a key step in the journey by completing this gap analysis. The gap analysis confirms much of what Arizona leadership instinctively understood. The time line is short, but with the assets identified, deliberate plans to move forward and one of the most capable State teams in the nation, Arizona is poised to make important and needed change happen.

4 Evaluative Measures

The Governor's Office has a very comprehensive approach to evaluation based on industry best practices within project management and utilizing Project Management Institute's (PMI) methodologies. The Governor's Office will start by creating a project management plan which will include a detailed work breakdown structure, a comprehensive schedule, risk mitigation strategies, and definitions of project processes. The project management plan schedule will be updated frequently, when applicable, as the Governor's Office proceeds through the project. The schedule will be shared with stakeholders regularly to ensure good communication and project tracking.

In addition to consistent tracking and updating of the project management plan schedule, the Governor's Office recognizes that its Level One Establishment grant application may need to evolve as the project progresses. A routine quarterly evaluation of this application will be conducted to determine if any updates or shifts in approach are required. This review will be led by the Governor's Office with feedback from stakeholders to ensure accountability to the application. Any updates or shifts in strategy will be a transparent process with the Center for Consumer Information and Insurance Oversight (CCIIO).

Furthermore, implementing a state-based Exchange within Arizona is a complex undertaking consisting of integrating multiple systems and stakeholders that need to work together for successful outcomes. Therefore a risk management tracking tool will be used to identify, manage, and mitigate risks. Risks will also be given a value of both importance and a qualitative measure of likelihood to occur. All risks will also be categorized into various high-level buckets. The Governor's Office recognizes the importance to have a mitigation strategy in place for each risk in the event the risk becomes an issue. The risk management tracking tool will be updated regularly, as needed, and will be evaluated by the Governor's Office and other stakeholders. Exhibit 14 is an example of the risk management tool in use.

EXHIBIT 14.

RISK LOG											
Project Name: Health insurance Exchange											
Basic Risk Information				Risk Assessment Information				Risk Response Information			
Risk #	Risk Description	Responsible Party	Date Reported day-month-year	Last Update day-month-year	Impact H/M/L	Probability H/M/L	Timeline N/M/F	Status of Response N/P/PE/EE	Completed Actions	Planned Actions	Risk Status O/C/I
Unique identifier e.g. R1, R2, etc.	Statement of what might happen in the future and its possible impact on the project.	Team member/ agency	Date first reported	Date updated	H=high, M=medium, L=low per impact definitions	H=high, M=medium, L=low per probability definitions	N=near-term, M=medium-term, F=far-term per timeline definitions	N=no plan; P=plan but not enacted; PE=plan enacted but unknown effectiveness; EE=plan enacted and effective	List by date, all actions taken to respond to the risk (does not include assessment).	List by date, what will be done in the future to respond to the risk.	O=open which means still might happen therefore still has to be managed; C=closed which means the risk has either passed or has been successfully mitigated; I=issue which means risk has escalated and happened

Lastly, the Work Plan, included in this application, identifies the major tasks and milestones to be completed within each core area during the Level One Establishment grant period and beyond. The State of Arizona views these tasks and milestones as the key indicators to be measured. The different research projects completed during the Planning grant period can be considered the baseline data for those core areas as appropriate and stated in the Work Plan. However, as stated above, there will be continuous evaluation of this project with updates provided to all stakeholders including CCIIO through many various avenues.

5 Budget Narrative

State of Arizona
Health Insurance Exchange
Level One Establishment Grant Budget
Project Period: 11/15/11 – 11/14/12

A. Personnel:
An employee of the applying agency whose work is tied to the application

TABLE 1: FEDERAL REQUEST

Position	Name	Annual Salary/Rate	Level of Effort	Cost
Exchange Director/Policy Advisor, Health Care	Don Hughes	$120,000	95%	$114,000
Director of Health Care Innovation Infrastructure Management	Linda Skinner	$120,000	50%	$60,000
Grants Management Analyst	Jason Mistlebauer	$72,000	100%	$72,000
Outreach and Education Coordinator	TBD	$60,000	100%	$60,000
			TOTAL	$306,000

NARRATIVE JUSTIFICATION: The table above contains the top 4 executives being funded either partially or fully for the Level One Establishment Grant. No other personal has been projected for funding by these grant funds within the Governor's Office. The stated "Annual Salary/Rate" for each position is normal and complimentary to the stated job duties and roles within the grant and normal State of Arizona policies (human resource or otherwise). The Governor's Office plans to leverage other state agencies and their staff, vendor resources, strategic stakeholder participation, and contractual resources to implement the state's plan for the Health Insurance Exchange as declared in the Level One Establishment Grant application.

Exchange Director/Policy Advisor on Health Care (.95 FTE)
Don Hughes will be responsible for the overall project scope and implementation of the statewide strategy. All team members will report to Don.

Director of Health Care Innovation Infrastructure Management (.50 FTE)
Linda Skinner will be accountable for the schedule, task assignment, issues list and reconciliation as well as the overall project status for the Exchange. Coordination with the project team, including contractors, vendors, and status reporting will also be the duties of the Director of Health Care Innovation Infrastructure Management. Lastly, Linda will be responsible for escalation of issues to the appropriate parties in order to reach consensus and resolution. Linda will report to the Exchange Director.

Outreach and Education Coordinator (1.0 FTE)
Reporting to the Director of Health Care Innovation Infrastructure Management, the Outreach and Education Coordinator will be responsible for providing subject matter expertise to the implementation of the community and stakeholder engagement. Additionally, the Outreach and Education Coordinator will assist as needed in other areas of the implementation of the Exchange. The state has started the application process for this position with a projected hire date during Q1 2012.

Grants Management Analyst (1.0 FTE)
In this role, **Jason Mistlebauer** will be the day-to-day grants administrator ensuring compliance with the terms and requirements of the grant award. Jason will be responsible for ensuring that all certifications and assurances are complied with along with all programmatic reporting including financial and progress reports.

FEDERAL REQUEST (enter in Section B column 1 line 6a of form SF424A): **$306,000**
B. Fringe Benefits:
Fringe benefits may include contributions for social security, employee insurance, pension plans, etc. Only those benefits not included in an organization's indirect cost pool may be shown as direct costs.

List all components of fringe benefits rate.

TABLE 2: FEDERAL REQUEST

Component	Rate	Wage	Cost
FICA	7.65%	$306,000	$23,409
Workers Compensation	2.5%	$306,000	$7,650
Insurance	16.98%	$306,000	$51,958.80
Retirement	9.87%	$306,000	$30,202.20
		TOTAL	$113,220

NARRATIVE JUSTIFICATION: The fringe rates are based on actual percentages and estimated historical insurance costs totaling to 37%. Arizona's fringe rate averages between 37% and 38% and there is some anticipation that these numbers may change slightly over the course of the project. The one unique item to Arizona is the sizeable retirement contribution. Under the Arizona State Retirement System, the state contributes 9.87% per enrolled employee.

FEDERAL REQUEST (enter in Section B column 1 line 6b of form SF424A)**: $113,220**

C. Travel:
Explain need for all travel other than that required by this application. The lowest available commercial fares for coach or equivalent accommodations must be used. Local travel policies prevail.

TABLE 3: FEDERAL REQUEST

Purpose of Travel	Location	Item	Rate	Cost
All Grantee Meetings	Washington, DC	Airfare	$500 x 3 attendees x 2 meetings	$3,000
		Hotel	$200 x 3 attendees x 3 nights x 2 meetings	$3,600
		Per Diem (meals, local travel, luggage fee, etc.)	$59 x 3 attendees x 4 days x 2 meetings	$1,416
Regional Grantee Meeting	Western United States	Airfare	$250 x 3 attendees	$750
		Hotel	$200 x 3 attendees x 3 nights	$1,800
		Per Diem	$59/day x 3 attendees x 4 days	$708
Various Stakeholder/Local Outreach	In-State	Mileage Reimbursement	1,000 miles @ $.445/mile	$445
			TOTAL	$11,719

NARRATIVE JUSTIFICATION: Based on the Planning grant, it is anticipated that travel will continue to be necessary for Health Insurance Exchange coordination meetings across the nation either hosted by the Center for Customer Information and Insurance Oversight (CCIIO) or other related organizations. Additionally, in-state travel will be needed to conduct meetings with the various stakeholder groups to inform and educate them on the Exchange. The stated rate is based on actual state reimbursement rate for employees using their own personal vehicle.

FEDERAL REQUEST (enter in Section B column 1 line 6c of form SF424A): **$11,719**

D. Equipment:
Permanent equipment is defined as nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more.

If applicant agency defines “equipment” at lower rate then follow the applying agency’s policy.

TABLE 4: FEDERAL REQUEST

Item(s)	Rate	Cost
None	N/A	$0
	TOTAL	$0

NARRATIVE JUSTIFICATION: N/A

FEDERAL REQUEST (enter in Section B column 1 line 6d of form SF424A): **$0**

E. Supplies: Materials costing less than $5,000 per unit and often having one-time use

TABLE 5: FEDERAL REQUEST

Item(s)	Rate	Cost
General office supplies	$150/mo. x 6 mo.	$900
Postage	$20.00/mo. x 6 mo.	$120
Laptop Computer	$1,500	$1,500
BlackBerry Purchase	$100	$100
BlackBerry Service	$50 x 3 employees x 12 mo.	$1,800
SharePoint User Licenses	$2,000/yearly	$2,000
	TOTAL	$6,420

NARRATIVE JUSTIFICATION: One employee identified in the above Personnel section will be new to government service and will need a laptop computer along with a BlackBerry phone and monthly service package (besides Don Hughes and Jason Mistlebauer's monthly service). General office supplies and postage are estimates but seem appropriate for the amount of activity expected for this project and period. SharePoint will facilitate the flow of information with document sharing capability and generating surveys.

FEDERAL REQUEST (enter in Section B column 1 line 6e of form SF424A): **$6,420**

F. Contract:
The costs of project activities to be undertaken by a third-party contractor should be included in this category as a single line item charge. A complete itemization of the cost comprising the charge should be attached to the budget. If there is more than one contractor, each must be budgeted separately and must have an attached itemization.

A contract is generally the amount paid to non-employees for services or products. A consultant is a non-employee who provides advice and expertise in a specific program area.

TABLE 6: FEDERAL REQUEST

Name	Purpose	Cost
Social Interest Solutions (SIS)	IT consulting and project management services	$600,000
SIS	IT Medicaid Infrastructure (cost-allocated)	$7,500,000
Arizona Health Care Cost Containment System (AHCCCS)	Medicaid Health Insurance Exchange services (cost-allocated);legal and procurement services	$1,200,000
Arizona Department of Insurance (ADOI)	Services to be provided: stakeholder consultation, program integration, assistance to individuals and small businesses, certification of qualified health plans, quality rating system, Navigator Program, and risk adjustment and transitional reinsurance	$912,800
Mercer	ADOI plan management services	$915,000
Arizona Department of Economic Security (ADES)	Medicaid Health Insurance Exchange services (cost-allocated)	$750,000
Burns & Associates, Inc.	Continue to perform research and refine population data on Exchange utilization, review Federal statutes and guidance, review activities of other states and offer advice and other consulting services as requested	$50,000
Inter-Tribal Council of Arizona, Inc. (ITCA)	Public education outreach services to tribal lands/members	$100,000
TBD	Marketing and public education outreach services	$750,000
TBD	Individual and Small Business Health Options Program (SHOP) services and IT infrastructure	$16,450,000
TBD	System and process evaluation consultant services	$100,000
	TOTAL	$29,327,800

NARRATIVE JUSTIFICATION: Social Interest Solutions (SIS) is seen as a national expert on the Patient Protection and Affordable Care Act (PPACA) with one provision of it being the requirement of each State to establish a Health Insurance Exchange. Additionally, SIS assisted the State of Arizona's Medicaid agency, Arizona Health Care Cost Containment System (AHCCCS), in establishing its current web-based screening and application system, Health-e-Arizona for Medicaid, Children's Health Insurance Program (CHIP), Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF) and Medicare Savings Programs; along with recently performing the IT gap analysis for the initial Planning grant. The Health Insurance Exchange team plans to continue with SIS services to further implement the public interface component for the Health Insurance Exchange specific to AHCCCS' Health-e-Arizona. There are common core functions that are shared between the public and commercial elements of the Health Insurance Exchange. Based on the background research conducted, the Health Insurance Exchange team has concluded that there will be an even proportion of users

between the public eligible and those persons directed to the individual module. The Health Insurance Exchange team applied AHCCCS' initial Advanced Planning Document (APD) for Eligibility/Enrollment and Information Systems (effective through May 2012) as a basis to effectively calculate the funding needs for the implementation and installation of the public component for the remaining period of the Level One Establishment Grant application (APD stated a need of approximately $10M so applying that 50-50 split would be $5M with an additional $2.5M for the remaining period unaccounted for with the Level One Establishment Grant application period i.e. $625,000/month). While the dollar amounts stated in Table 6 for SIS IT Medicaid infrastructure, AHCCCS, and ADES are cost allocated, the Health Insurance Exchange team does believe as the project moves forward these figures will need to be updated. Lastly, as a function of that contract, SIS will also serve as the technical project manager.

The Arizona Department of Insurance (ADOI) will be contracted by the Governor's Office to further its work in the following areas: stakeholder consultation, program integration, assistance to individuals and small businesses, certification of qualified health plans, quality rating system, Navigator Program, and risk adjustment and transitional reinsurance. Like the Planning grant, ADOI will have consultant assistance in those areas through Mercer.

Burns & Associates, Inc. performed the initial background research for the Planning grant and that data is presented in the State's Level One Establishment Grant application. The Governor's Office believes that continuing these services will benefit the project by refining that data to better understand the volume and potential utilization rates as internal processes and external rules and requirements aligns towards implementation.

Per Health Insurance Exchange stakeholder meetings with the Inter-Tribal Council of Arizona, Inc., it has requested funds to better serve its community and members in educating them on the Health Insurance Exchange.

Per the State's Level One Establishment Grant application, it will solicit bids for various services listed above in Table 6: marketing and public education outreach, the Individual and Small Business Health Options Program (SHOP) Exchanges and evaluation services. It is unknown at this time if more than one vendor will be procured for any of these services. Additional clarity around these costs will be discovered through the Request for Proposals (RFPs) process as the State is required to follow a competitive bidding process. However, the Individual and Small Business Health Options Program (SHOP) services and IT infrastructure amount was calculated using data from recently received Request for Information (RFI) from vendors around the required functions, their services and abilities along with the State's desires.

FEDERAL REQUEST (enter in Section B column 1 line 6f of form SF424A): **$29,327,800**

G. Construction: NOT ALLOWED
On your SF424A, leave the following section blank: Section B columns 1&2 line 6g

H. Other: Expenses not covered in any of the previous budget categories

TABLE 7: FEDERAL REQUEST

Item	Rate	Cost
N/A	N/A	$0
	TOTAL	$0

NARRATIVE JUSTIFICATION: N/A

FEDERAL REQUEST (enter in Section B column 1 line 6h of form SF424A): **$0**

TOTAL DIRECT COSTS:

FEDERAL REQUEST (enter in Section B column 1 line 6i of form SF424A): **$29,765,159**

TOTAL INDIRECT COSTS: Our Federally approved indirect cost rate is 15.76% and is applied to the following direct cost base of $612,359 for total indirect charges of $96,509.

Item	Base	Indirect
Personnel	$306,000	$48,226
Fringe	$113,220	$17,843
Travel	$11,719	$1,847
Supplies and Other Operating	$6,420	$1,012
Contractual (first $25,000 of each contract – 11 total contracts)	$275,000	$43,340
Total	$712,359	$112,268

FEDERAL REQUEST (enter in Section B column 1 line 6j of form SF424A): **$112,268**

TOTAL PROJECT COSTS: Sum of Total Direct Costs and Indirect Costs

TABLE 8: BUDGET SUMMARY

Category	Total Federal Request
Personnel	$306,000
Fringe	$113,220
Travel	$11,719
Equipment	$0
Supplies	$6420
Contractual	$29,327,800
Other	$0
Total Direct Costs	$29,765,159
Indirect Costs	$112,268
Total Project Costs	$29,877,427

FEDERAL REQUEST (enter in Section B column 1 line 6k of form SF424A): **$29,877,427**